



INNERGEX

Renewable Energy.
Sustainable Development.

QUARTERLY REPORT 2011

**FOR THE PERIOD
ENDING MARCH 31, 2011**

Condensed consolidated financial statements
(Unaudited)
(in thousands of Canadian dollars except as noted and amounts per share)

| Condensed consolidated statements of earnings | | Three-month period ended March 31, 2011 | Three-month period ended March 31, 2010 |
|--|-------|---|---|
| | Notes | \$ | \$ |
| Revenues | | | (Note 1.4.5) |
| Operating | | 20,816 | 13,998 |
| Expenses | | | |
| Operating | | 3,787 | 2,289 |
| Share-based compensation | 12 | 130 | 1 |
| General and administrative | 12 | 1,868 | 969 |
| | | 5,785 | 3,259 |
| Earnings from operations | | 15,031 | 10,739 |
| Prospective projects expenses | 12 | 307 | 10 |
| Earnings before interests, income taxes, depreciation and amortization and other items | | 14,724 | 10,729 |
| Finance costs | 13 | 6,728 | 3,907 |
| Transaction costs | 12 | 1,111 | 5,330 |
| Other net revenues | | (162) | (61) |
| Earnings before income taxes, depreciation and amortization and other items | | 7,047 | 1,553 |
| Depreciation | | 5,403 | 3,112 |
| Amortization | | 3,862 | 2,429 |
| Unrealized net (gain) loss on derivative financial instruments | | (9,534) | 2,040 |
| Unrealized loss on unitholders' capital | | - | 51,761 |
| Expense related to royalty agreement upon share exchange arrangement | 6 | - | 983 |
| Unrealized net (gain) loss on foreign exchange | | (41) | (45) |
| Earnings (loss) before income taxes and distributions | | 7,357 | (58,727) |
| Provision for income taxes (recovery) | | | |
| Current | | (1,088) | (107) |
| Deferred | | 2,715 | (945) |
| | | 1,627 | (1,052) |
| Net earnings (loss) before distributions declared to unitholders | | 5,730 | (57,675) |
| Distributions declared to unitholders | | - | 7,238 |
| Net earnings (loss) | | 5,730 | (64,913) |
| Net earnings (loss) attributable to: | | | |
| Owners of the parent | | 5,975 | (64,907) |
| Non-controlling interests | | (245) | (6) |
| | | 5,730 | (64,913) |
| Weighted average number of common shares outstanding (in 000) | | 59,533 | 43,299 |
| Basic net earnings (loss) per share | 8 | 0.08 | (1.33) |
| Diluted number of common shares outstanding (in 000) | | 59,604 | 43,299 |
| Diluted net earnings (loss) per share | 8 | 0.08 | (1.33) |

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

Condensed consolidated financial statements

(Unaudited)

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

| Condensed consolidated statements of Comprehensive income (loss) | Three-month period ended March 31, 2011 \$ | Three-month period ended March 31, 2010 \$ |
|--|---|---|
| | | (Note 1.4.5) |
| Net earnings (loss) | 5,730 | (64,913) |
| Other items of comprehensive income (loss) | | |
| Unrealized foreign exchange loss on translation of a self-sustaining foreign subsidiary (nil income tax) | (85) | (132) |
| Unrealized foreign exchange gain on the designated portion of the US\$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary (nil income tax) | 85 | 131 |
| | - | (1) |
| Comprehensive income (loss) | 5,730 | (64,914) |
| Total comprehensive income (loss) attributable to: | | |
| Owners of the parent | 5,975 | (64,908) |
| Non-controlling interests | (245) | (6) |
| Comprehensive income (loss) for the period | 5,730 | (64,914) |

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

Condensed consolidated financial statements

(Unaudited)

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

| Condensed consolidated statement of Financial Position | Notes | March 31, 2011 \$ | December 31, 2010 \$ | January 1, 2010 \$ |
|--|-------|-------------------------|----------------------------|--------------------------|
| Assets | | | (Note 1.4.2) | (Note 1.4.1) |
| Current assets | | | | |
| Cash and cash equivalents | | 33,614 | 42,116 | 9,352 |
| Accounts receivable | | 11,891 | 14,685 | 6,164 |
| Current portion of reserve accounts | | - | 494 | 477 |
| Income tax receivable | | 3,338 | 2,200 | - |
| Current portion of derivative financial instruments | | 1,659 | 1,679 | 1,369 |
| Prepaid and others | | 4,473 | 4,648 | 1,938 |
| | | 54,975 | 65,822 | 19,300 |
| Reserve accounts | | 19,806 | 20,947 | 14,913 |
| Property, plant and equipment | 7 | 608,445 | 612,310 | 332,164 |
| Intangible assets | | 207,135 | 210,838 | 107,360 |
| Project development costs | | 8,440 | 5,908 | - |
| Current portion of derivative financial instruments | | 10,326 | 9,534 | 8,779 |
| Deferred tax assets | | 15,055 | 13,178 | 2,641 |
| Goodwill | | 8,269 | 8,269 | 8,269 |
| Other long-term assets | | 4,031 | 334 | - |
| | | 936,482 | 947,140 | 493,426 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Dividends / distribution payable to shareholders / unitholders | | 9,695 | 10,064 | 2,451 |
| Accounts payable and accrued liabilities | | 20,287 | 21,746 | 6,784 |
| Current portion of derivative financial instruments | | 9,084 | 8,543 | 5,422 |
| Current portion of long-term debt | | 9,384 | 9,259 | 2,758 |
| Income tax liabilities | | 2,539 | 2,164 | 2,790 |
| | | 50,989 | 51,776 | 20,205 |
| Construction holdbacks | | 126 | 76 | - |
| Derivative financial instruments | | 13,294 | 22,597 | 4,795 |
| Long-term debt | | 348,426 | 349,431 | 221,803 |
| Asset retirement obligations | | 2,309 | 2,384 | 1,185 |
| Deferred tax liabilities | | 86,965 | 82,641 | 66,973 |
| Liability portion of convertible debentures | | 79,372 | 79,334 | - |
| Unitholders' capital | | - | - | 270,535 |
| | | 581,481 | 588,239 | 585,496 |
| Shareholders' equity | | | | |
| Common share capital | | 5,720 | 5,720 | - |
| Series A preferred shares | | 82,589 | 82,589 | - |
| Contributed surplus from reduction of capital on common shares | | 453,793 | 453,793 | - |
| Share-based compensation | | 1,058 | 928 | - |
| Equity portion of convertibles debentures | | 1,340 | 1,340 | - |
| Deficit | | (192,080) | (188,295) | (92,143) |
| Accumulated other comprehensive income | | 238 | 238 | 73 |
| Equity (deficit) attributable to owners | | 352,658 | 356,313 | (92,070) |
| Non-controlling interests | | 2,343 | 2,588 | - |
| Total shareholders' equity (deficit) | | 355,001 | 358,901 | (92,070) |
| | | 936,482 | 947,140 | 493,426 |

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

Condensed consolidated financial statements

(Unaudited)

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

| Three-month period ended March 31, 2011 | | | | | | | | | | | |
|--|-------------------------|--------------------------------------|---------------------------|--|--------------------------|--|-----------|--|-------------------------------|---------------------------|----------------------|
| Condensed consolidated statement of change in shareholders' equity | Number of common shares | Common shareholders' capital account | Series A preferred shares | Contributed surplus from reduction of capital on common shares | Share-based compensation | Equity portion of convertible debentures | Deficit | Accumulated other comprehensive income | Equity attributable to owners | Non-controlling interests | Shareholders' equity |
| | In 000's | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance January 1, 2011 | 59,533 | 5,720 | 82,589 | 453,793 | 928 | 1,340 | (188,295) | 238 | 356,313 | 2,588 | 358,901 |
| Net earnings (loss) | | | | | | | 5,975 | | 5,975 | (245) | 5,730 |
| Other items of comprehensive income | | | | | | | | - | - | - | - |
| Comprehensive income for the period | | | | | | | 5,975 | - | 5,975 | (245) | 5,730 |
| Share-based compensation of the period | | | | | 130 | | | | 130 | - | 130 |
| Dividends declared on common shares | | | | | | | (8,632) | | (8,632) | | (8,632) |
| Dividends declared on Series A preferred shares (including \$65 of income taxes) | | | | | | | (1,128) | | (1,128) | | (1,128) |
| Balance March 31, 2011 | 59,533 | 5,720 | 82,589 | 453,793 | 1,058 | 1,340 | (192,080) | 238 | 352,658 | 2,343 | 355,001 |

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

Condensed consolidated financial statements

(Unaudited)

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

| Three-month period ended March 31, 2010 | | | | | | | | | |
|---|--------------------------------|--|--------------------------|--|-----------|--|-------------------------------|---------------------------|-----------------------|
| Condensed consolidated statement of change in shareholders' equity | Number of common shares/ units | Common share-holders'/ Unit-holders' capital account | Share-based compensation | Equity portion of convertible debentures | Deficit | Accumulated other comprehensive income | Equity attributable to owners | Non-controlling interests | Share-holders' equity |
| | In 000's | \$ | \$ | \$ | \$ | | \$ | \$ | \$ |
| Balance January 1, 2010 | - | - | - | - | (92,143) | 73 | (92,070) | - | (92,070) |
| Unitholder's value upon share exchange arrangement | 29,404 | 322,296 | | | | | 322,296 | | 322,296 |
| Reduction of unitholders' capital account owned by the Corporation and not converted into common shares | (4,724) | (57,165) | | | | | (57,165) | | (57,165) |
| Adjustment to number of units to reflect the 1.46 conversion ratio | 11,353 | - | | | | | - | | - |
| Common shareholders' capital account from common shares of the Corporation already issued prior to the share exchange arrangement | 23,500 | 193,398 | | | | | 193,398 | | 193,398 |
| Balances accounted upon share exchange arrangement (Note 6) | | 983 | 497 | 1,340 | - | - | 2,820 | 2,656 | 5,476 |
| Net loss | | | | | (64,907) | | (64,907) | (6) | (64,913) |
| Other items of comprehensive loss | | | | | | (1) | (1) | | (1) |
| Comprehensive (loss) for the period | | | | | (64,907) | (1) | (64,908) | (6) | (64,914) |
| Share-based compensation of the period | | | 1 | | | | 1 | | 1 |
| Balance March 31, 2010 | 59,533 | 459,512 | 498 | 1,340 | (157,050) | 72 | 304,372 | 2,650 | 307,022 |

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

Condensed consolidated financial statements

(Unaudited)

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

| Condensed consolidated statements of Cash Flows | | Three-month period ended March 31, 2011 | Three-month period ended March 31, 2010 |
|--|-------|---|---|
| | Notes | \$ | \$ |
| Operating activities | | | |
| Net earnings (loss) | | 5,730 | (64,913) |
| Items not affecting cash: | | | |
| Depreciation of property, plant and equipment | | 5,403 | 3,112 |
| Amortization of intangible assets | | 3,862 | 2,429 |
| Amortization of financing fees | 13 | 53 | 571 |
| Accretion expense on asset retirement obligations | 13 | (75) | 153 |
| Share-based compensation | | 130 | 1 |
| Unrealized net (gain) loss on derivative financial instruments | | (9,534) | 2,040 |
| Unrealized loss on unitholders' capital | | - | 51,761 |
| Deferred tax expense (income) | | 2,715 | (945) |
| Unrealized net gain on foreign exchange | | (41) | (45) |
| Amortization of reevaluation of long-term debt and convertible debenture | 13 | 16 | (37) |
| Expense related to royalty agreement upon share exchange arrangement | 6 | - | 983 |
| Effect of exchange rate fluctuations | | (37) | (33) |
| Interest on long-term debt and convertible debentures | 13 | 6,734 | 3,220 |
| Interest paid | | (5,653) | (3,402) |
| Distributions declared to unitholders | | - | 7,238 |
| Distributions paid to former unitholders | | - | (9,688) |
| Current income taxes provision | | (1,088) | (107) |
| Income taxes paid | | (58) | (849) |
| | | 8,157 | (8,511) |
| Changes in non-cash operating working capital items | 10 | 4,449 | 265 |
| | | 12,606 | (8,246) |
| Financing activities | | | |
| Dividends paid on common units | | (8,632) | - |
| Dividends paid on Series A preferred shares | | (1,432) | - |
| Increase of long-term debt | | 13,000 | 73,920 |
| Repayment of bank loan | | - | (12,900) |
| Repayment of long-term debt | | (13,614) | (119,806) |
| Payment of deferred financing costs | | (51) | (1,615) |
| | | (10,729) | (60,401) |

Condensed consolidated financial statements

(Unaudited)

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

| Condensed consolidated statements of Cash Flows | | Three-month period ended March 31, 2011 | Three-month period ended March 31, 2010 |
|---|-------|---|---|
| | Notes | \$ | \$ |
| Investing activities | | | |
| Cash acquired on business acquisition | 6 | - | 88,394 |
| Additions to property, plant and equipment | | (6,013) | (196) |
| Additions to intangible assets | | (25) | - |
| Additions to project development costs | | (2,150) | - |
| Additions to other long-term assets | | (3,746) | - |
| Net funds withdrawn from the levelization reserve | | 494 | 205 |
| Net funds withdrawn from the wind/hydro reserve | | 977 | 986 |
| Net funds withdrawn from (invested into) the major maintenance reserve accounts | | 103 | (245) |
| | | (10,360) | 89,144 |
| Effects of exchange rate changes on cash and cash equivalents | | (19) | (88) |
| Net increase (decrease) in cash and cash equivalents | | (8,502) | 20,409 |
| Cash and cash equivalents, beginning of period | | 42,116 | 9,352 |
| Cash and cash equivalents, end of period | | 33,614 | 29,761 |
| <i>Cash and cash equivalents is comprised of:</i> | | | |
| Cash | | 13,843 | 18,421 |
| Short-term investments | | 19,771 | 11,340 |
| | | 33,614 | 29,761 |

Additional information is presented in Note 10.

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

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

DESCRIPTION OF BUSINESS

Innergex Renewable Energy Inc. (the "Corporation") was incorporated under the *Canada Business Corporation Act* on October 25, 2002. The Corporation is a developer, owner and operator of renewable power-generating facilities, essentially focused on the hydroelectric, wind power and solar photovoltaic sectors. The head office of the Corporation is located at 1111, St-Charles Street West, East Tower, Suite 1255, Longueuil, Qc, J4K 5G4, Canada.

Pursuant to the share exchange arrangement as described in Note 6, 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 was passed to the unitholders of the Fund, and the Fund is identified as the acquirer for accounting purposes in accordance with International Financial Reporting Standards ("IFRS"). This type of share exchange is referred to as a "reverse acquisition". In a reverse acquisition 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.

Prior to the share exchange arrangement, the Corporation administered the Fund and managed Innergex Power Trust ("IPT"), a wholly owned subsidiary of the Fund; IPT indirectly owned the Fund's assets and investments. The Corporation was also providing management services to the operators of the Fund's Facilities.

Following the share exchange arrangement, the Fund distributed all its assets and transferred all of its liabilities to the Corporation.

Principal subsidiaries

The following provides information about the principal subsidiaries of the Corporation as of March 31, 2011. All subsidiaries reside in Canada except the Horseshoe Bend Hydroelectric Company that resides in the USA.

| Subsidiary | Voting power owned (2) | Accounting method used |
|--------------------------------------|------------------------|---|
| | % | |
| Innergex, L.P. | 100 | Consolidation |
| Innergex Montmagny, L.P. | 100 | Consolidation |
| Hydro-Windsor, L.P. | 100 | Consolidation |
| Trent-Severn Power, L.P. | 100 | Consolidation |
| Horseshoe Bend Hydroelectric Company | 100 | Consolidation |
| Rutherford Creek Power L.P. | 100 | Consolidation |
| Innergex AAV, L.P. (1) | 100 | Consolidation |
| Innergex BDS, L.P. (1) | 100 | Consolidation |
| Innergex CAR, L.P. (1) | 100 | Consolidation |
| Innergex GM, L.P. (1) | 100 | Consolidation |
| Innergex MS, L.P. (1) | 100 | Consolidation |
| Glen Miller Power, L.P. | 100 | Consolidation |
| Ashlu Creek Investments, L.P. | 100 | Consolidation |
| Fitzsimmons Creek Hydro, L.P. | 66.67 | Consolidation with non controlling interest |
| Creek Power Inc. | 66.67 | Consolidation with non controlling interest |
| Kwoiek Creek Resources, L.P. | 50 | Consolidation with non controlling interest |
| Viger-Denonville, L.P. | 50 | Proportional consolidation |
| Umbata Falls, L.P. | 49 | Proportional consolidation |

(1) Undivided owner of a 38% stake in the l'Anse-à-Valleau, Baie-des-Sables, Carleton, Gros-Morne and Montagne Sèche wind farms.

(2) % of ownership and % of voting power held are the same except for Kwoiek Creek project where the Corporation owns more than 50% of the economic interest.

These condensed financial statements were approved by the Board of Directors on June 7, 2011.

The Corporation's revenues are variable with each season and are normally at their lowest in the first quarter due to cold temperature. As a result, earnings of interim periods should not be considered as indicative of results for an entire year.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

These financial statements do not contain all disclosures required by the IFRS 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 Corporation's latest annual report. The impact of the transition from the previous Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS is presented below in Note 1.

These condensed financial statements have been prepared in accordance with the accounting policies described in Note 4.

1. FIRST TIME ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

1.1 IFRS 1 Application

The consolidated financial statements of the Corporation for the period ending December 31, 2011 will be the first annual financial statements prepared in accordance with IFRS. The Corporation applied IFRS 1 standard for the preparation of these quarterly financial statements.

The transition date of the Corporation is January 1, 2010, being the date of the beginning of the comparative period. The Corporation prepared its Statement of Financial Position at that date. The closing date of the audited consolidated financial statements will be December 31, 2011. The adoption date of the IFRS by the Corporation is January 1, 2011.

Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to deficit unless certain exemptions or exceptions are applied. During the preparation of the consolidated financial statements, in conformity with IFRS 1, the Corporation elected to use allowed exemption to other IFRS standards while applying exceptions to retrospective application for other IFRS standards.

The Company completed an impairment review of its assets at January 1, 2010 and concluded that some of the assets were impaired in accordance with IFRS as described in Note 1.4.1.

1.2 Exemptions from other IFRS's

The Corporation applied the following exemptions from other standards:

a) Business combination

The Corporation applied the exemption allowed by the IFRS 1. Business combinations that occurred before January 1, 2010, the date of transition to IFRS's have not been restated in compliance with IFRS 3. The same classification as determined under Canadian GAAP has been kept. The assets and liabilities that were acquired or assumed in past business combinations were recognized at the date of transition to IFRS since they qualified for recognition under IFRS. The March 29, 2010 share exchange arrangement which occurred after the date of transition is not part of the scope of the exemption.

b) Deemed cost of property, plant and equipment and intangible assets.

As allowed under IFRS 1, the Corporation used the values determined at the Initial Public Offering of the Fund, on July 4, 2003, as its deemed cost of property, plant and equipment and intangible assets for IFRS and retrospectively recalculated accumulated amortization therefore in accordance with IAS 16, *Property, Plant and Equipment*.

1.3 Exception to the retrospective application of other IFRS

The Corporation applied the following mandatory exception to the retrospective application of other IFRS:

a) Estimates

Hindsight was not used to create or revise estimates and accordingly, the estimates in accordance with IFRS are consistent with the ones made in accordance with Canadian GAAP.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4 Reconciliation between IFRS and Canadian GAAP

The following reconciliations detail the transitional effect to the IFRS:

- Financial position as at January 1, 2010 (Note 1.4.1)
- Financial position as at December 31, 2010 (Note 1.4.2)
- Statement of Earnings and comprehensive income for the year ended December 31, 2010 (Note 1.4.3)
- Statement of cash flows for the year ended December 31, 2010 (Note 1.4.4)
- Statement of Earnings and comprehensive income for the period ended March 31, 2010 (Note 1.4.5)
- Shareholders' equity as at March 31, 2010 (Note 1.4.6)

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.1 Reconciliation of financial position as at January 1, 2010

| Condensed consolidated statement of financial position | Canadian GAAP | IFRS transition effect | | IFRS |
|--|---------------|------------------------|-----------|----------|
| | \$ | Notes | \$ | \$ |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 9,352 | | | 9,352 |
| Accounts receivable | 6,164 | | | 6,164 |
| Current portion of reserve accounts | 477 | | | 477 |
| Deferred tax assets | 213 | a) | (213) | - |
| Derivative financial instruments | 1,369 | | | 1,369 |
| Prepaid and others | 1,938 | | | 1,938 |
| | 19,513 | | (213) | 19,300 |
| Reserve accounts | 14,913 | | | 14,913 |
| Property, plant and equipment | 334,199 | b) | (2,035) | 332,164 |
| Intangible assets | 119,426 | c) | (12,066) | 107,360 |
| Derivative financial instruments | 8,779 | | | 8,779 |
| Deferred tax assets | 2,372 | a) | 213 | |
| | | g) | 56 | 2,641 |
| Goodwill | 8,269 | | | 8,269 |
| Other long-term assets | 670 | d) | (670) | - |
| | 508,141 | | (14,715) | 493,426 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Distribution payable to unitholders | 2,451 | | | 2,451 |
| Accounts payable and accrued liabilities | 9,574 | e) | (2,790) | 6,784 |
| Income tax liabilities | - | e) | 2,790 | 2,790 |
| Derivative financial instruments | 5,422 | | | 5,422 |
| Current portion of long-term debt | 2,758 | | | 2,758 |
| | 20,205 | | - | 20,205 |
| Derivative financial instruments | 4,795 | | | 4,795 |
| Long-term debt | 221,803 | | | 221,803 |
| Asset retirement obligations | 977 | f) | 208 | 1,185 |
| Deferred tax liabilities | 70,883 | g) | (838) | |
| | | g) | (3,072) | 66,973 |
| Unitholders' capital | - | h) | 270,535 | 270,535 |
| | 318,663 | | 266,833 | 585,496 |
| Unitholders' equity (Deficit) | | | | |
| Unitholders' capital | 309,681 | h) | (309,681) | - |
| Deficit | (120,274) | b) | (2,038) | |
| | | c) | (12,066) | |
| | | d) | (670) | |
| | | f) | (208) | |
| | | g) | 895 | |
| | | g) | 3,072 | |
| | | h) | 39,146 | (92,143) |
| Accumulated other comprehensive income | 71 | b) | 3 | |
| | | g) | (1) | 73 |
| Equity (Deficit) attributable to owners | 189,478 | | (281,548) | (92,070) |
| | 508,141 | | (14,715) | 493,426 |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.1 Reconciliation of Financial position as at January 1, 2010 (continued)

a) Deferred tax assets

Under IAS 1, deferred tax assets or liabilities should not be classified as current assets or liabilities. Accordingly, the \$213 current portion of deferred tax assets has been reclassified with the long-term deferred tax assets.

b) Property, plant and equipment

Under IAS 16, accumulated depreciation of property, plant and equipment is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives. The accumulated depreciation of property, plant and equipment is increased resulting in a lower carrying value of \$2,035 with corresponding entries in the deficit increased by \$2,038 and the accumulated other comprehensive income increased by \$3.

c) Intangible assets

The Corporation performed an impairment test, as of January 1, 2010, and accordingly the carrying amounts of intangible assets were impaired by an amount of \$12,066 with a corresponding entry in the deficit.

d) Other long-term assets

Under IFRS 3, transaction costs incurred in a business combination must be expensed in the period they are incurred, whereas they were capitalized under section 1581 of the Canadian Institute of Chartered Accountant ("CICA") Handbook. As a result, the transaction costs of \$670 incurred in view of the March 2010 share exchange arrangement described in Note 5, have been derecognized with a corresponding entry to the deficit account.

e) Income tax liabilities

Under IAS 1, the Corporation must present the income tax liabilities of \$2,790 separately from others liabilities.

f) Asset retirement obligations

Under IAS 37, accretion expense must be adjusted to reflect the obligation by discounting the estimated future cash flows with an appropriate rate determined as of the balance sheet date. The rate at which the cash flows have been discounted was adjusted resulting in an increase of asset retirement obligations of \$208 with a corresponding entry in the deficit.

g) Deferred tax liabilities

Adjustments made to the intangible assets following the impairment test as of January 1, 2010 explain \$3,072 of the decline in deferred tax liabilities with a corresponding entry into deficit. Adjustments made to the carrying value of Property, plant and equipment and to Accretion expenses on asset retirement obligations explain \$838 and \$56 respectively of the net decline in deferred income taxes. These elements have \$895 and \$1 of corresponding entry into deficit and accumulated other comprehensive income, respectively.

h) Unitholders' capital

Under IAS-32, the unitholders' capital of the Fund is reclassified as a long-term liability and accounted for as a financial instrument at fair value. As at January 1, 2010, the unitholders' capital is reduced by \$309,681. The fair value of the unitholders' capital was estimated at \$270,535 and reclassified as a long-term liability. An adjustment of \$39,146 has been recorded in the deficit to reflect the decrease in value of the liability over the carrying value of the unitholders' capital under Canadian GAAP.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.2 Reconciliation of financial position as at December 31, 2010

| Condensed consolidated statement of financial position | Canadian GAAP | IFRS transition effect | | IFRS |
|--|---------------|------------------------|----------|---------|
| | \$ | Notes | \$ | \$ |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 42,116 | | | 42,116 |
| Accounts receivable | 16,656 | a) | (1,971) | 14,685 |
| Current portion of reserve accounts | 494 | | | 494 |
| Deferred income taxes | 2,133 | b) | (2,133) | - |
| Income tax receivable | 229 | a) | 1,971 | 2,200 |
| Derivative financial instruments | 1,679 | | | 1,679 |
| Prepaid and others | 4,648 | | | 4,648 |
| | 67,955 | | (2,133) | 65,822 |
| Reserve accounts | 20,947 | | | 20,947 |
| Property, plant and equipment | 614,142 | c) | (3,718) | 610,424 |
| | | c) | 1,886 | 612,310 |
| Intangible assets | 186,490 | d) | (11,378) | 175,112 |
| | | d) | 433 | 175,545 |
| | | d) | 35,293 | 210,838 |
| Project development costs | 9,688 | e) | (3,780) | 5,908 |
| Derivative financial instruments | 9,534 | | | 9,534 |
| Deferred tax assets | 14,269 | b) | (1,157) | 13,112 |
| | | f) | 66 | 13,178 |
| Goodwill | 7,901 | g) | 368 | 8,269 |
| Other long-term assets | 763 | h) | (429) | 334 |
| | 931,689 | | 15,451 | 947,140 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Dividends / distribution payable to shareholders / unitholders | 10,064 | | | 10,064 |
| Accounts payable and accrued liabilities | 23,910 | i) | (2,164) | 21,746 |
| Income tax liabilities | - | i) | 2,164 | 2,164 |
| Current deferred tax liabilities | 319 | b) | (319) | - |
| Derivative financial instruments | 8,543 | | | 8,543 |
| Current portion of long-term debt | 9,259 | | | 9,259 |
| | 52,095 | | (319) | 51,776 |
| Construction holdbacks | 76 | | | 76 |
| Derivative financial instruments | 22,597 | | | 22,597 |
| Long-term debt | 349,431 | | | 349,431 |
| Asset retirement obligations | 1,591 | j) | 793 | 2,384 |
| Deferred tax liabilities | 79,219 | b) | (2,971) | 76,248 |
| | | k) | 6,393 | 82,641 |
| Liability portion of convertible debentures | 79,334 | | | 79,334 |
| | 584,343 | | 3,896 | 588,239 |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.2 Reconciliation of financial position as at December 31, 2010 (continued)

| Condensed consolidated statement of financial position | Canadian GAAP | IFRS transition effect Notes | IFRS |
|--|---------------|---------------------------------|----------|
| | \$ | | \$ |
| Shareholders' equity | | | |
| Common share capital | 1 | n) | 5,719 |
| Preferred shares | 82,589 | | - |
| Contributed surplus from reduction of capital on common shares | 420,627 | m) | 12,615 |
| | | n) | 20,551 |
| | | | 453,793 |
| Share-based compensation | 828 | l) | 100 |
| Equity portion of convertibles debentures | 1,841 | o) | (501) |
| Deficit | (158,776) | | |
| | | c) | (3,079) |
| | | d) | (11,378) |
| | | d) | 433 |
| | | g) | 368 |
| | | h) | (5,829) |
| | | j) | (651) |
| | | k) | 4,602 |
| | | l) | (100) |
| | | m) | (12,615) |
| | | q) | 5 |
| | | p) | 68 |
| | | c) | 24 |
| | | d) | (1,367) |
| Accumulated other comprehensive income | 236 | c) | 12 |
| | | q) | (10) |
| Equity attributable to owners | 347,346 | | 8,967 |
| Non-controlling interests | - | p) | 2,588 |
| Total shareholders' equity | 347,346 | | 11,555 |
| | 931,689 | | 15,451 |
| | | | 947,140 |

a) Income tax receivable

Under IAS 1, the Corporation must present the current tax assets of \$1,971 separately from others assets.

b) Deferred tax assets

Under IAS 1, deferred tax assets or liabilities should not be classified as current assets or liabilities. Accordingly, the \$2,133 current portion of deferred tax assets and the \$319 current deferred tax liabilities have been reclassified amongst deferred tax assets (reduction of \$1,157) and deferred tax liabilities (reduction of \$2,971).

c) Property, plant and equipment

Under IAS 16, accumulated depreciation of property, plant and equipment is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives. The accumulated depreciation of property, plant and equipment is increased resulting in a lower carrying value of \$3,718 with corresponding entries in the deficit of \$3,079, the accumulated other comprehensive income of \$12 and the intangible assets of \$651. The later amount is included in the \$35,293 adjustment in Note 1.4.2 d).

Under IFRS 3, the measurement date for equity issued is different than under section 1581 of the CICA Handbook and the non-controlling interest were be measured at fair value of the net assets acquired on the share exchange arrangement. This resulted into a net increase in fair value of property, plant and equipment of \$1,862 and the depreciation expense was decreased by \$24. The total adjustment on property, plant and equipment is \$1,886 and the later amount is included in the \$20,551 adjustment in Note 1.4.2 n).

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.2 Reconciliation of financial position as at December 31, 2010 (continued)

d) Intangible assets

The Corporation performed an impairment test as of January 1, 2010, and, accordingly, the carrying amounts of intangible assets were impaired by an amount of \$12,066. The impact of the impairment test resulted in a lower amortization expense by an amount of \$688. The net adjustment on intangible assets is \$11,378 with a corresponding entry in the deficit.

Under IAS 12, the recognition of a deferred income tax asset related to a previous acquisition must be accounted for in the statement of earnings. A reversal of the \$433 decrease in the carrying amount of the intangible assets that was accounted for under Section 3465 of the CICA handbook is accounted with a corresponding entry to the deficit account.

Under IFRS 3, the measurement date for equity issued is different than under section 1581 of the CICA Handbook and the non-controlling interests were measured at the non-controlling interests' proportionate share of the net assets acquired on the share exchange arrangement. This resulted into an increase in fair value of \$36,660 and the depreciation expense was increased by \$1,367. The net adjustment on intangible assets is \$35,293.

e) Project development costs

Under IFRS 3, the measurement date for equity issued is different than under section 1581 of the CICA Handbook and the non-controlling interests were measured at the non-controlling interests' proportionate share of the net assets acquired on the share exchange arrangement. This resulted into a decrease in project development costs' fair value of \$3,780.

f) Deferred tax assets

Adjustments made to the carrying values of Property, plant and equipment and to the accretion expense on the Asset retirement obligations explain the increase of \$58 in deferred tax assets.

In addition, a deferred tax liability was recognized on a difference resulting from the initial recognition of intangible properties in the course of a business combination. It resulted in a decrease of the deferred tax assets of \$314.

Furthermore, IAS 12 contains guidance on calculating deferred tax in relation to compound financial instruments. According to these rules, a decrease of \$303 was made to the deferred tax assets.

Additionally, IAS 12 and the deferred tax recognition principle relating to temporary differences are based on recovering or settling the carrying amount of the asset or liability at the reporting date. According to that principle, adjustments were made to the deferred tax assets booked on long-term debts. It was increased by \$625.

Those four elements resulted in a net increase of deferred tax assets of \$66.

g) Goodwill

Under IAS 12, the recognition of a deferred tax assets related to a previous acquisition must be accounted for in the statement of earnings. A reversal of the \$368 decrease in the carrying amount of the goodwill that was accounted for under Section 3465 of the CICA handbook is accounted with a corresponding entry to the deficit account.

h) Other long-term assets

Under IFRS 3, transaction costs incurred in a business combination must be expensed in the period they are incurred, whereas they were capitalized under section 1581 of the CICA handbook. As a result, the transaction costs of \$429 related to the acquisition of Cloudworks Energy inc. and the transaction costs of \$5,400 incurred in view of the March 2010 share arrangement described in Note 6, have been derecognized with a corresponding entry to the deficit account.

i) Income tax liabilities

Under IAS 1, the Corporation must present the income tax liabilities of \$2,164 separately from others liabilities.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.2 Reconciliation of financial position as at December 31, 2010 (continued)

j) Asset retirement obligations

Under IAS 37, accretion expense must be adjusted to reflect the obligation by discounting the estimated future cash flows with an appropriate rate determined as of the balance sheet date. The rate at which the cash flows have been discounted was adjusted resulting in an increase of asset retirement obligations of \$793 with a corresponding increase of the deficit by \$651 and a corresponding decrease of \$142 of the intangible assets. This later amount is included in the \$35,293 adjustment in Note 1.4.2 d).

k) Deferred tax liabilities

Adjustments made to the carrying values of Property, plant and equipment and to the accretion expense on the Asset retirement obligations explain the decrease of \$1,183 in deferred tax liabilities with a corresponding entry into deficit.

Adjustments made to the carrying values of Intangibles assets explain the \$3,129 of decrease in the deferred taxes liabilities.

In addition, a deferred tax liability was recognized on differences resulting from the initial recognition of intangible properties in the course of a business combination. It resulted in an increase of the deferred tax liabilities of \$662.

Also, since under IFRS 3 the measurement date for equity issued is different and the non-controlling interest must be measured at fair value of the net assets acquired on the share exchange arrangement, it resulted in an increase in fair value of most of the assets accounted for. Accordingly, it created, at the date of the share exchange arrangement, an additional deferred tax liability. These adjustments explain \$9,031 of increase in the deferred tax liabilities.

Additionally, IAS 12 and the deferred tax recognition principle relating to temporary differences are based on recovering or settling the carrying amount of the asset or liability at the reporting date. According to that principle, adjustments were made to the deferred tax liabilities booked on long-term debts. It was increased by \$1,012.

Those five elements resulted in a net increase of deferred tax liabilities of \$6,393.

l) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. The expense was increased by \$100 with a corresponding entry into deficit.

m) Contributed surplus

Under IAS 32, the unitholders' capital is accounted for as a financial instrument at fair value and reclassified as a long-term liability. As of January 1, 2010, the unitholders' capital was reduced by \$309,681. Upon the share exchange arrangement, the fair value of the unitholders' capital classified as a long-term liability was estimated at \$322,296 and was reclassified into common share capital. This resulted in a net total adjustment of \$12,615 that was subsequently reclassified into contributed surplus upon the legal reduction of the stated capital by an amount of \$453,793. A corresponding entry of \$12,615 was made to the deficit.

n) Common share capital

Under section 1581 of the CICA Handbook, the measurement date for equity interests issued on a reversed acquisition is when terms of the transaction are agreed upon and announced. Under IFRS 3, the measurement date for equity interests issued is the acquisition date. The difference in these methods resulted in an increase of \$26,270 in the fair value 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. This increase is recognized in common share capital and contributed surplus for \$5,719 and \$20,551 respectively.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.2 Reconciliation of financial position as at December 31, 2010 (continued)

o) Equity portion of convertibles debentures

Under Canadian GAAP, temporary differences between the liability component of convertible debentures and the underlying tax basis are not recognized as deferred tax. Under IFRS, deferred tax are recognized for such temporary differences. Accordingly, the Corporation recognizes an amount of \$501 of deferred income tax with a corresponding entry in the Deferred tax liabilities. The later amount is included in the \$6,393 adjustment in Note 1.4.2 k).

p) Non-controlling interests

Under IFRS 3, for each business combination, at the acquisition date, the acquirer is required to measure components of non-controlling interests in the acquiree that have an ownership interest and entitle their holders to a proportionate share of the entity's net assets at fair value. Therefore, the Corporation recognized an amount of \$2,656 as non-controlling interests in the share exchange arrangement. For the year ending December 31, 2010, a loss of \$68 was allocated to the non-controlling interest. The net adjustment to the non-controlling interests is \$2,588.

q) Unrealized foreign exchange loss (gain)

Adjustments made to the foreign subsidiary regarding the depreciation and the deferred income taxes resulted in a net adjustment of \$5 into the deficit and \$10 into the accumulated other comprehensive income.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.3 Reconciliation of statement of earnings and comprehensive income for the year ended December 31, 2010

| Condensed consolidated statements of earnings | Canadian GAAP | IFRS transition effect | | IFRS |
|--|----------------|------------------------|-----------------|-----------------|
| | \$ | Notes | \$ | \$ |
| Revenues | | | | |
| Operating | 89,100 | a) | 2,285 | 91,385 |
| Expenses | | | | |
| Operating | 12,357 | a) | 2,285 | |
| Share-based compensation | 331 | b) | (113) | 14,529 |
| General and administrative | 5,943 | c) | 100 | 431 |
| | 18,631 | | 2,272 | 20,903 |
| Earnings from operations | 70,469 | | 13 | 70,482 |
| Prospective projects expenses | 2,371 | | | 2,371 |
| Earnings before interests, income taxes, depreciation and amortization and other items | 68,098 | | 13 | 68,111 |
| Finance costs | 23,193 | b) | 556 | 23,749 |
| Realized loss on derivative financial instrument | (555) | | | (555) |
| Transaction costs | - | d) | 5,159 | 5,159 |
| Other net (revenues) expenses | (17) | | | (17) |
| Earnings before income taxes, depreciation and amortization and other items | 45,477 | | (5,702) | 39,775 |
| Depreciation | 18,341 | e) | 1,041 | 19,358 |
| Amortization | 12,948 | f) | (24) | |
| | | f) | (688) | |
| | | | 1,367 | 13,627 |
| Unrealized net loss on derivative financial instruments | 20,761 | | | 20,761 |
| Unrealized loss on unitholders' capital | | g) | 51,761 | 51,761 |
| Expense related to royalty agreement upon share exchange arrangement | 983 | | | 983 |
| Unrealized net (gain) loss on foreign exchange | (23) | h) | (5) | (28) |
| Loss before income taxes and distributions | (7,533) | | (59,154) | (66,687) |
| Provision for income taxes (recovery) | | | | |
| Current | (2,253) | | | (2,253) |
| Deferred | (1,621) | i) | (801) | (3,057) |
| | (3,874) | i) | (635) | (4,509) |
| | | | (1,436) | (5,310) |
| Distributions declared to unitholders | - | j) | 7,238 | 7,238 |
| Net loss | (3,659) | | (64,956) | (68,615) |
| Net loss attributable to: | | | | |
| Owners of the parent | (3,659) | | (64,888) | (68,547) |
| Non-controlling interests | - | | (68) | (68) |
| | (3,659) | | (64,956) | (68,615) |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.3 Reconciliation of statement of earnings and comprehensive income for the year ended December 31, 2010 (continued)

| Condensed consolidated statements of comprehensive income | Canadian GAAP | IFRS transition effect | | IFRS |
|---|---------------|------------------------|----------|-----------------|
| | \$ | Notes | \$ | \$ |
| Net loss | (3,659) | | (64,956) | (68,615) |
| Other items of comprehensive income | | | | |
| Unrealized foreign exchange gain on translation of a self-sustaining foreign subsidiary | (227) | k) | 6 | (221) |
| Unrealized foreign exchange loss on the designated portion of the US\$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary | 257 | k) | (6) | 251 |
| Realized gain from reduction in net investment in foreign subsidiaries | 135 | | | 135 |
| | 165 | | - | 165 |
| Comprehensive loss | (3,494) | | (64,956) | (68,450) |
| Total comprehensive loss attributable to: | | | | |
| Owners of the parent | | | | (68,382) |
| Non-controlling interests | | | | (68) |
| Total comprehensive loss for the period | | | | (68,450) |

a) EcoEnergy program

Under IAS-18, gross revenues must be presented. The Corporation is entitled to subsidies under the EcoEnergy program. The subsidies are equal to 1 cent per kWh produced at various facilities, including the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms, for the first 10 years following commissioning of each facility. 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-Québec. Net EcoEnergy subsidies were included in the operating revenues of the facilities. Gross EcoEnergy subsidies are now included in the operating revenues of the facilities resulting in an increase of \$2,285 and a corresponding adjustment for the 75% transfer to Hydro-Québec is included in operating expenses of the facilities.

b) Accretion expense on asset retirement obligation

Under IAS 37, accretion expense on asset retirement obligation must be adjusted to reflect the obligation by discounting the estimated future cash flows with an appropriate rate determined as of the balance sheet date and must be accounted for as financial expense. The rate at which the cash flows have been discounted was adjusted resulting in an increase of \$443 of the Accretion expense for a total expense of \$556. The \$113 Accretion expense on asset retirement obligation accounted for under Canadian GAAP was reclassified from the Operating expenses to the Finance costs.

c) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. This resulted in an increase of \$100 of the Share-based compensation expense.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.3 Reconciliation of statement of earnings and comprehensive income for the year ended December 31, 2010 (continued)

d) Transaction costs

Under IFRS 3, transaction costs incurred in a business combination must be expensed in the period they are incurred whereas they were capitalized under section 1581 of the CICA Handbook. As a result, the Transaction costs of \$4,730 related to the Share exchange arrangement described in Note 5 and an amount of \$429 related to other business acquisition totaling \$5,159 were expensed as incurred.

e) Depreciation

Under IAS 16, depreciation of Property, plant and equipment is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives which resulted in an increase of depreciation of \$1,041.

Under IFRS 3, the measurement date for equity issued is different than under Section 1581 of the CICA Handbook and the non-controlling interests were measured at the non-controlling interests' proportionate share of the net assets acquired on the Share exchange arrangement which resulted in a different purchase price allocation. The Depreciation expense was decreased by \$24 resulting from a lower allocation to the Property, plant and equipment.

f) Amortization

Under IAS 1, the Corporation performed an impairment test as of January 1, 2010, and, accordingly, the carrying amounts of intangibles were impaired and this resulted in a lower amortization expense by an amount of \$688.

Under IFRS 3, the measurement date for equity issued is different than under Section 1581 of the CICA Handbook and the non-controlling interests were measured at the non-controlling interests' proportionate share of the net assets acquired on the Share exchange arrangement which resulted in a different purchase price allocation. The Amortization expense was increased by \$1,367 resulting from a higher allocation to the Intangible assets.

g) Unrealized loss on unitholders' capital

Under IAS 32, the unitholders' capital of the Fund is reclassified as a long-term liability with variations in fair value recognized in the consolidated statement of income. The unrealized loss on unitholders' capital was adjusted to reflect the fair value increase of the unitholders' capital of \$51,761 between January 1, 2010, and March 29, 2010. At that date, the unitholders' capital was reclassified in share capital as part of the Share exchange arrangement, as described in Note 6.

h) Unrealized foreign exchange gain

Adjustments made to the foreign subsidiary regarding the depreciation resulted in a net adjustment of \$5.

i) Deferred tax expense

Under IAS 12, the recognition of a deferred tax asset related to a previous acquisition must be accounted for in the statement of earnings. Amounts of \$433 that was accounted as a reduction of Intangible assets under GAAP and \$368 that was accounted as a reduction of Goodwill under GAAP, totaling \$801, are accounted for in the provision for deferred tax.

Adjustments made to elements identified in the consolidated Statement of income for the year ended December 31, 2010 explain the increase in deferred income tax income of \$635.

j) Distributions declared to unitholders

Under IAS 32, the unitholders' capital is reclassified as a long-term liability. Accordingly, distributions declared to unitholders in an amount of \$7,238 were included in the net loss instead of being accounted as distributions.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.3 Reconciliation of statement of earnings and comprehensive income for the year ended December 31, 2010 (continued)

k) Comprehensive income

The effect of the adjustments to depreciation and deferred income tax expenses of the foreign subsidiaries resulted in adjustments to the comprehensive income.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.4 Reconciliation of statement of cash flows for the year 2010

| Condensed consolidated statements of cash flows | Canadian GAAP | IFRS transition effect | | IFRS |
|---|---------------|------------------------|----------|-----------|
| | \$ | Notes | \$ | \$ |
| Operating activities | | | | |
| Net loss | (3,659) | a) | (64,956) | (68,615) |
| Items not affecting cash: | | | | |
| Depreciation of property, plant and equipment | 18,341 | b) | 1,017 | 19,358 |
| Amortization of intangible assets | 12,948 | c) | 679 | 13,627 |
| Amortization of financing fees | 768 | | | 768 |
| Accretion expenses on asset retirement obligations | 113 | d) | 443 | 556 |
| Share-based payment | 331 | e) | 100 | 431 |
| Unrealized net loss on derivative financial instruments | 20,761 | | | 20,761 |
| Unrealized loss on unitholders' capital | - | f) | 51,761 | 51,761 |
| Deferred tax expense (income) | (1,621) | g) | (1,436) | (3,057) |
| Unrealized net (gain) loss on foreign exchange | (23) | h) | (5) | (28) |
| Amortization of reevaluation of long term debt and convertible debenture | (7) | | | (7) |
| Expense related to royalty agreement upon share exchange arrangement (Note 6) | 983 | | | 983 |
| Others | 82 | | | 82 |
| Effect of exchange rate fluctuations | 51 | | | 51 |
| Interest on long-term debt and convertible debentures | - | j) | 22,432 | 22,432 |
| Interest paid | - | j) | (22,246) | (22,246) |
| Current income taxes | - | k) | (2,253) | (2,253) |
| Income taxes paid | - | k) | (2,153) | (2,153) |
| Distributions declared to unitholders | - | i) | 7,238 | 7,238 |
| Distributions paid to former unitholders | (9,688) | | | (9,688) |
| | 39,380 | | (9,379) | 30,001 |
| Changes in non-cash operating working capital items | (25,712) | l) | (346) | |
| | | j) | (186) | |
| | | k) | 4,406 | (21,838) |
| | 13,668 | | (5,505) | 8,163 |
| Financing activities | | | | |
| Dividends paid to common shareholders | (17,454) | | | (17,454) |
| Increase of long-term debt | 134,220 | | | 134,220 |
| Repayment of bank loan | (12,900) | | | (12,900) |
| Repayment of long-term debt | (205,539) | | | (205,539) |
| Net proceeds from issuance of Serie A preferred shares | 81,743 | | | 81,743 |
| Deferred financing costs | (1,724) | | | (1,724) |
| | (21,654) | | - | (21,654) |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.4 Reconciliation of statement of cash flows for the year 2010 (continued)

| Condensed consolidated statements of cash flows | Canadian GAAP | IFRS transition effect | | IFRS |
|---|---------------|------------------------|----------|---------------|
| | \$ | Notes | \$ | \$ |
| Investing activities | | | | |
| Additions to property, plant and equipment | (29,667) | | | (29,667) |
| Additions to intangible assets | (413) | | | (413) |
| Additions to project development costs | (9,056) | | | (9,056) |
| Additions to other long-term assets | (365) | I) | 144 | (221) |
| Cash acquired on business acquisitions (Note 5) | 83,033 | I) | 5,361 | 88,394 |
| Short-term loan to a partner in joint venture | (1,000) | | | (1,000) |
| Proceeds from disposal of property, plant & equipment | 298 | | | 298 |
| Net funds withdrawn from the levelization reserve | 570 | | | 570 |
| Net funds invested into wind/hydro reserve | (2,081) | | | (2,081) |
| Net funds invested into major repairs reserve accounts | (463) | | | (463) |
| | 40,856 | | 5,505 | 46,361 |
| Effects of exchange rate changes on cash and cash equivalents | (106) | | | (106) |
| Net increase (decrease) in cash and cash equivalents | 32,764 | | - | 32,764 |
| Cash and cash equivalents, beginning of period | 9,352 | | | 9,352 |
| Cash and cash equivalents, end of period | 42,116 | | - | 42,116 |

a) Net loss

See Note 1.4.3 for details about the IFRS transition effects.

b) Depreciation

Under IAS 16, depreciation of Property, plant and equipment is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives which resulted in an increase of depreciation of \$1,041.

Under IFRS 3, the measurement date for equity issued is different than under Section 1581 of the CICA Handbook and the non-controlling interest must be measured at fair value of the net assets acquired on the Share exchange arrangement which resulted in a different purchase price allocation. The Depreciation expense was decreased by \$24 resulting from a lower allocation to the Property, plant and equipment.

c) Amortization

As of January 1, 2010, the Corporation performed an impairment test and, accordingly, the carrying amounts of intangibles were impaired and this resulted in a lower amortization expense by an amount of \$688.

Under IFRS 3, the measurement date for equity issued is different than under Section 1581 of the CICA Handbook and the non-controlling interest were be measured at fair value of the net assets acquired on the Share exchange arrangement which resulted in a different purchase price allocation. The Amortization expense was increased by \$1,367 resulting from a higher allocation to the Intangible assets.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.4 Reconciliation of statement of cash flows for the year 2010 (continued)

d) Accretion expense on asset retirement obligation

Under IAS 37, accretion expense on asset retirement obligation must be adjusted to reflect the obligation by discounting the estimated future cash flows with an appropriate rate determined as of the balance sheet date and must be accounted for as financial expense. The rate at which the cash flows have been discounted was adjusted resulting in an increase of \$443 of the accretion expense on asset retirement obligation for a total expense of \$556. The \$113 accretion expense on asset retirement obligation accounted for under Canadian GAAP was reclassified from the Operating expenses to the Finance costs.

e) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. This resulted in an increase of \$100 of the Share-based compensation expense.

f) Unrealized loss on unitholders' capital

Under IAS 32, the unitholders' capital is reclassified as a long-term liability with variations in fair value recognized in the consolidated statement of income. The unrealized loss on unitholders' capital was adjusted to reflect the fair value increase of the unitholders' capital of \$51,761 between January 1, 2010, and March 29, 2010. At that date, the unitholders' capital was acquired by the Corporation as part of the Share exchange arrangement, as described in Note 6.

g) Deferred tax expense

Under IAS 12, the recognition of a deferred tax asset related to a previous acquisition must be accounted for in the statement of earnings. Amounts of \$433 that was accounted as a reduction of Intangible assets under GAAP and \$368 that was accounted as a reduction of Goodwill under GAAP, totaling \$801, are accounted for in the provision for deferred tax.

Adjustments made to elements identified in the consolidated Statement of income for the year ended December 31, 2010 explain the increase in deferred income tax income of \$635.

h) Unrealized foreign exchange gain

Adjustments made to the foreign subsidiary regarding the depreciation resulted in a net adjustment of \$5.

i) Distributions declared to unitholders

Under IAS 32, the unitholders' capital is reclassified as a long-term liability. Accordingly, distributions declared to unitholders in an amount of \$7,238 were included in the net loss instead of being accounted for as distributions.

j) Interest paid

Under IAS 7, an entity must present separately the interest paid. This resulted in adjustments to changes in non-cash operating working capital items.

k) Income taxes paid

Under IAS 7, an entity must present separately the income taxes paid. This resulted in adjustments to changes in non-cash operating working capital items.

l) Transaction costs

Under IFRS 3, transaction costs incurred in a business combination must be expensed in the period they are incurred whereas they were capitalized under section 1581 of the CICA Handbook. As a result, the Transaction costs related to the Share exchange arrangement described in Note 6 and an amount related to other business acquisition were expensed as incurred, resulting in adjustments of \$5,361 and \$144 respectively to the investing activities.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.5 Reconciliation of statement of earnings and comprehensive income for the period ended March 31, 2010

| Condensed consolidated statements of earnings | Canadian GAAP | IFRS transition effect | IFRS |
|--|------------------|------------------------|----------|
| | \$ | Notes | \$ |
| Revenues | | | |
| Operating | 13,551 | a) | 447 |
| Expenses | | | |
| Operating | 1,862 | a) | 447 |
| Share-based compensation | 2 | b) | (20) |
| General and administrative | 969 | c) | (1) |
| | 2,833 | | 426 |
| Earnings from operations | 10,718 | | 21 |
| Prospective projects expenses | 10 | | 10 |
| Earnings before interests, income taxes, depreciation and amortization and other items | 10,708 | | 21 |
| Finance costs | 3,754 | b) | 153 |
| Transaction costs | - | d) | 5,330 |
| Other net (revenues) expenses | (61) | | (61) |
| Earnings before income taxes, depreciation and amortization and other items | 7,015 | | (5,462) |
| Depreciation | 2,936 | e) | 176 |
| Amortization | 2,601 | f) | (172) |
| Unrealized net loss on derivative financial instruments | 2,040 | | 2,040 |
| Unrealized loss on unitholders' capital | - | g) | 51,761 |
| Expense related to royalty agreement upon share exchange arrangement | 983 | | 983 |
| Unrealized net (gain) loss on foreign exchange | (42) | h) | (3) |
| Loss before income taxes and distributions | (1,503) | | (57,224) |
| Provision for income taxes (recovery) | | | |
| Current | (107) | | (107) |
| Deferred | (897) | i) | (48) |
| | (1,004) | | (48) |
| Net loss before distributions declared to unitholders | (499) | | (57,176) |
| Distributions declared to unitholders | - | j) | 7,238 |
| Net loss | (499) | | (64,414) |
| Net loss attributable to: | | | |
| Owners of the parent | (499) | | (64,408) |
| Non-controlling interests | - | | (6) |
| | (499) | | (64,414) |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.5 Reconciliation of statement of earnings and comprehensive income for the period ended March 31, 2010 (continued)

| Condensed consolidated statements of comprehensive income | Canadian GAAP | IFRS transition effect | | IFRS |
|---|---------------|------------------------|-----------------|-----------------|
| | \$ | Notes | \$ | \$ |
| Net loss | (499) | | (64,414) | (64,913) |
| Other items of comprehensive loss | | | | |
| Unrealized foreign exchange gain on translation of a self-sustaining foreign subsidiary (net of nil income tax) | (135) | h) | 3 | (132) |
| Unrealized foreign exchange loss on the designated portion of the US\$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary (net of nil income tax) | 134 | h) | (3) | 131 |
| | (1) | | - | (1) |
| Comprehensive loss | (500) | | (64,414) | (64,914) |
| Total comprehensive loss attributable to: | | | | |
| Owners of the parent | | | | (64,908) |
| Non-controlling interests | | | | (6) |
| Total comprehensive loss for the period | | | | (64,914) |

a) EcoEnergy program

Under IAS-18, gross revenues must be presented. The Corporation is entitled to subsidies under the EcoEnergy program. The subsidies are equal to 1 cent per kWh produced at various facilities, including the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms, for the first 10 years following commissioning of each facility. 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-Québec. Net EcoEnergy subsidies were included in the operating revenues of the facilities. Gross EcoEnergy subsidies are now included in the operating revenues of the facilities resulting in an increase of \$447 and a corresponding adjustment for the 75% transfer to Hydro-Québec is included in operating expenses of the facilities.

b) Accretion expense on asset retirement obligation

Under IAS 37, accretion expense on asset retirement obligation must be adjusted to reflect the obligation by discounting the estimated future cash flows with an appropriate rate determined as of the balance sheet date and must be accounted for as Financial expense. The rate at which the cash flows have been discounted was adjusted, resulting in an increase of \$133 of Accretion expense on asset retirement obligation for a total expense of \$153. The \$20 Accretion expense on asset retirement obligation accounted for under Canadian GAAP was reclassified from the Operating expenses to the Finance costs.

c) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. This resulted in a decrease of \$1 of the Share-based compensation expense.

d) Transaction costs

Under IFRS 3, transaction costs incurred in a business combination must be expensed in the period they are incurred whereas they were capitalized under section 1581 of the CICA Handbook. As a result, the Transaction costs of \$5,330 related to the share exchange arrangement described in Note 6 are expensed as incurred.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.5 Reconciliation of statement of earnings and comprehensive income for the period ended March 31, 2010 (continued)

e) Depreciation

Under IAS 16, depreciation of property, plant and equipment is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives which resulted in an increase of depreciation of \$176.

f) Amortization

The Corporation performed an impairment test on January 1, 2010 and, accordingly, the carrying amounts of intangibles were impaired and this resulted in a lower amortization expense by an amount of \$172.

g) Unrealized loss on unitholders' capital

Under IAS 32, the unitholders' capital of the Fund is reclassified as a long-term liability with variations in fair value recognized in the consolidated statement of income. The unrealized loss on unitholders' capital was adjusted to reflect the fair value increased of the unitholders' capital of \$51,761 between January 1, 2010, and March 29, 2010. At that date, the unitholders' capital was acquired by the Corporation as part of the Share exchange arrangement, as described in Note 6.

h) Unrealized foreign exchange gain

Adjustments made to the foreign subsidiary regarding the depreciation resulted in a net adjustment of \$3.

i) Deferred tax expense

Adjustments made to elements identified in the consolidated statement of income for the three-month period ended March 31, 2011 explain the increase in deferred tax income of \$48.

j) Distributions declared to unitholders

Under IAS 32, the unitholders' capital is reclassified as a long-term liability. Accordingly, distributions declared to unitholders in an amount of \$7,238 were included in the net loss instead of being accounted as distributions.

k) Comprehensive income

The effect of the adjustments to depreciation and amortization and deferred income tax expenses of the foreign subsidiaries resulted in adjustments to the comprehensive income.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.6 Reconciliation of shareholders' equity as at March 31, 2010

| Condensed consolidated statement of financial position | Canadian GAAP | IFRS transition effect | | IFRS |
|--|---------------|------------------------|----------|-----------|
| | \$ | Notes | \$ | \$ |
| Shareholders' equity | | | | |
| Common share capital | 420,628 | b) | 12,615 | |
| | | c) | 26,269 | 459,512 |
| Share-based compensation | 499 | i) | (1) | 498 |
| Equity portion of convertible debentures | 1,841 | j) | (501) | 1,340 |
| Contributed surplus | - | | | - |
| Warrants | - | | | - |
| Total deficit | (128,011) | a) | 6 | |
| | | b) | (12,615) | |
| | | d) | (2,214) | |
| | | e) | (341) | |
| | | f) | (11,894) | |
| | | g) | (6,000) | |
| | | h) | 4,019 | (157,050) |
| Total cumulative other comprehensive income | 70 | d) | 9 | |
| | | h) | (7) | 72 |
| Equity attributable to shareholders | 295,027 | | 9,345 | 304,372 |
| Non-controlling interests | - | a) | 2,650 | 2,650 |
| Total shareholders' equity | 295,027 | | 11,995 | 307,022 |

a) Non-controlling interests

Under IFRS 3, for each business combination, at the acquisition date, the acquirer is required to measure components of non-controlling interests in the acquiree that have an ownership interest and entitle their holders to a proportionate share of the entity's net assets at fair value. Therefore, the Corporation recognized an amount of \$2,656 as non-controlling interests in the share exchange arrangement. For the quarter ending March 31, 2010, a loss of \$6 was allocated to the non-controlling interest. The net adjustment to the non-controlling interests is \$2,650.

b) Unitholders' capital

Under IAS 32, the unitholders' capital of the Fund is reclassified as a long-term liability and accounted for as a financial instrument at fair value. As at March 31, 2010, the unitholders' capital was estimated at \$322,296. An adjustment of \$12,615 has been recorded in the total deficit to reflect the increase in value of the liability.

c) Common share capital

Under the CICA 1581 the measurement date for equity interests issued by the acquirer is a few days before and after terms are agreed to and announced. Under IFRS 3 the measurement date for equity interests issued by the acquirer is the acquisition date. The difference in these method resulted in an increase of \$26,269 in the fair market value of Fund units that would have to be issued in order to provide the same percentage of ownership of the combined entity to the unitholders of the Fund.

d) Depreciation

Under IAS 16, accumulated depreciation of property, plant and equipment is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives. The accumulated depreciation of property, plant and equipment is increased by \$2,206 resulting in a lower book value with corresponding entries in the total deficit (\$2,214) and the total cumulative other comprehensive income (\$9).

e) Accretion expense on asset retirement obligations

Under IAS 37, accretion expense on asset retirement obligation must be adjusted to reflect the obligation by discounting the estimated future cash flows with an appropriate rate determined as of the balance sheet date. The rate at which the cash flows have been discounted was adjusted, resulting in an increase of Accretion expense on asset retirement obligations of \$341.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

1.4.6 Reconciliation of shareholders' equity as at March 31, 2010 (continued)

f) Intangible assets and amortization

On January 1, 2010, the Corporation performed an impairment test and, accordingly, the carrying amount of intangible assets was impaired by an amount of \$12,066. The impact of the impairment test resulted in a lower amortization expense by an amount of \$172. The net adjustment is \$11,894.

g) Other long-term assets

Under IFRS 3, transaction costs incurred in a business combination must be expensed in the period they are incurred, whereas they were capitalized under section 1581 of the CICA handbook. As a result, the transaction costs of \$6,000 incurred in view of the March 2010 share exchange arrangement described in Note 6, have been derecognized with a corresponding entry to the total deficit account.

h) Deferred income taxes

Adjustments made to the carrying values of Property, plant and equipment, Intangible assets and asset retirement obligations explain most of the variation in deferred income taxes.

i) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. This resulted in a decrease of \$1 of the Share-based compensation expense.

j) Equity portion of convertible debentures

Under Canadian GAAP, temporary differences between the liability component of convertible debentures and the underlying tax basis are not recognized as deferred tax. Under IFRS, deferred tax is recognized for such temporary differences. Accordingly, the Corporation recognizes an amount of \$501 of deferred income tax with a corresponding entry in the Deferred tax liabilities.

Notes to the Condensed Consolidated Financial Statements

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

2. ADDITIONAL IFRS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2010

The following IFRS disclosures relating to the year ended December 31, 2010 are material to an understanding of these interim financial statements.

2.1 Intangible assets

| | Hydroelectric facilities | Wind farm facilities | Total |
|--|--------------------------|----------------------|-----------------|
| | \$ | \$ | \$ |
| Gross carrying amount | | | |
| As at January 1, 2010 | 107,784 | 41,421 | 149,205 |
| Additions | 421 | - | 421 |
| Business Acquisitions | 81,097 | 35,673 | 116,770 |
| Net exchange differences | (111) | - | (111) |
| As at December 31, 2010 | 189,191 | 77,094 | 266,285 |
| Accumulated amortization | | | |
| As at January 1, 2010 | (37,030) | (4,815) | (41,845) |
| Amortization | (8,974) | (4,653) | (13,627) |
| Net exchange differences | 25 | - | 25 |
| As at December 31, 2010 | (45,979) | (9,468) | (55,447) |
| Net value as at December 31, 2010 | 143,212 | 67,626 | 210,838 |

2.2 Project development costs

| | Project development costs |
|--------------------------------|---------------------------|
| | \$ |
| Gross carrying amount | |
| As at January 1, 2010 | - |
| Additions | 5,908 |
| As at December 31, 2010 | 5,908 |

Project development costs include capitalized interest of \$122.

2.3 Goodwill

| | Goodwill |
|--------------------------------|--------------|
| | \$ |
| Gross carrying amount | |
| As at January 1, 2010 | 8,269 |
| As at December 31, 2010 | 8,269 |

For the year ended December 31, 2010, the Corporation conducted an annual goodwill impairment test. Based on the result of this test, no impairment charge was required.

The recoverable amount of each cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the management covering a period extending to the lesser of 50 years or the period for which the Corporation owns its rights on the site and a discount rate ranging from 7.5 % to 10.1 % per annum (same in 2009).

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

Assumptions used to determine the recoverable amount of assets are the following:

- The discount rate is a weighted average between the consolidated cost of debt and the consolidated cost of equity to which a risk premium is added for each cash-generating unit.
- A cash-generating unit is an individual hydroelectric facility or an individual wind farm.
- The future expected cash flows are based on the budgets before debt service and income tax of each cash-generating units. The budgets have been built using long-term averages of water flows and wind. These long-term averages approximate actual results.

Allocation of Goodwill to each cash-generating unit is as follows:

| | \$ |
|-----------------------|--------------|
| St-Paulin | 935 |
| Portneuf | 4,166 |
| Chaudière | 3,168 |
| Total Goodwill | 8,269 |

2.4 Asset retirement obligations

Asset retirement obligations primarily arise from obligations to retire wind farms upon expiry of the site leases. The wind farm facilities were constructed on sites held under leases expiring 25 years after the signing date. The Corporation estimates that the undiscounted value of the payments required for settling the obligations over a 25-years period will be as follows:

| | December 31, 2010 |
|---------------------------|-------------------|
| Year of expected payments | \$ |
| 2031 | 2,592 |
| 2032 | 2,466 |
| 2033 | 2,748 |
| | 7,806 |

The change in the liability during the period is as follows:

| | \$ |
|---|-------|
| Balance as at January 1, 2010 | 1,185 |
| Liability assumed as part of the share exchange arrangement | 501 |
| Liability incurred | - |
| Accretion expense (included in Finance costs) | 698 |
| Balance as at December 31, 2010 | 2,384 |

The cash flows were discounted at a rate of 5.6% as at December 31, 2010 to determine the obligations.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

2.5 Income tax recovery

The provision for tax expense shows an effective tax rate different from the rate computed under Canadian tax legislation. The differences between the statutory rate and the effective rate are as follows:

| | December 31, 2010 |
|--|-------------------|
| | \$ |
| Loss before provision for tax expense | (66,687) |
| Less: | |
| Accounting loss allocated to the unitholders | 111 |
| Deductible loss of the Corporation | (66,576) |
| Canadian statutory income tax rate | 29.64% |
| Income tax recovery calculated at the statutory rate | (19,735) |
| Items affecting the statutory rate: | |
| Non-deductible expenses | 15,619 |
| Income taxable at a higher rate than the Canadian statutory rate | 1,970 |
| Reduction in deferred tax rates | (2,230) |
| Reduction in taxes related to share exchange arrangement | (738) |
| Others | (196) |
| Recovery of income tax | (5,310) |

Following the share exchange arrangement, the Fund became subject to income tax as described in Note 6.

2.6 Deferred tax assets and liabilities

The tax impact of the temporary differences and losses carryforward relating to the Corporation and giving rise to significant deferred tax assets and liabilities is presented in the tables below:

| | December 31, 2010 |
|--|-------------------|
| | \$ |
| Deferred tax assets | |
| Non-capital losses carry forward and minimum taxes | 9,066 |
| Tax on dividends on preferred shares | 435 |
| Excess of the tax basis over carrying values of: | |
| Project development costs | 3,486 |
| Financing fees | 3,110 |
| Derivative financial instruments | 9,560 |
| Deferred tax assets before valuation allowance | 25,657 |
| Valuation allowance | (822) |
| Deferred tax assets | 24,835 |
| Deferred tax liabilities | |
| Non-repatriated income from foreign subsidiaries | (363) |
| Excess of the carrying values over tax basis of: | |
| Property, plant and equipment | (42,966) |
| Intangible assets | (49,927) |
| Investments into joint ventures | (352) |
| Excess of the tax basis over carrying values of: | |
| Convertible debentures | (303) |
| Long-term debt | (387) |
| Deferred tax liabilities | (94,298) |
| Net deferred tax liabilities | (69,463) |
| Reported in the financial statements | |
| Deferred tax assets | 13,178 |
| Deferred tax liabilities | (82,641) |
| Net deferred tax liabilities | (69,463) |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

As at December 31, 2010, the Corporation, its subsidiaries and joint ventures recorded tax losses totaling approximately \$35,700 that may be applied against taxable income in future years. These losses expire gradually between 2011 and 2030. The Corporation and its subsidiaries recorded capital losses totaling approximately \$7,000 that may be applied against capital gains in future years. The tax benefit arising from the capital losses was not recognized in deferred tax assets.

2.7 Employee benefits

The employee's benefits represent a total of \$7,280 for the year ended December 31, 2010. An amount of \$676 of salaries is included in the operation expenses, \$1,777 in the prospective projects expenses, \$2,676 in the general and administrative expenses, \$431 in the share-based compensation, \$392 in the transaction costs expenses, \$759 are capitalized in Property, plant and equipment and \$569 are capitalized in Projects under development.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

3. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These condensed financial statements have been prepared using accounting policies consistent with IFRS and in accordance with IAS-34 Interim Financial Reporting. These are the Corporation's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements, therefore IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

Previously, the Corporation prepared its consolidated annual and consolidated interim financial statements in accordance with GAAP.

As these are the Corporation's first set of consolidated interim financial statements in accordance with IFRS, the Corporation's disclosures exceed the minimum requirements under IAS-34. The Corporation has elected to exceed the minimum requirements in order to present the Corporation's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Corporation's 2010 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Corporation may not provide the same amount of disclosure in the Corporation's interim consolidated financial statements under IFRS as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

The standards available as of March 31, 2011 are subject to change and may be affected by additional interpretation(s). Accordingly, the accounting policies will be finalized when the first annual IFRS financial statements are prepared for the year ending December 31, 2011.

The financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair values as described in the significant accounting policies.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

4. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The condensed consolidated financial statements include the accounts of the Corporation, and the subsidiaries that it controls. Control exists where the Corporation has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the effective date of acquisition up to the effective date of disposal.

Joint ventures

A joint venture is a contractual agreement whereby the Corporation and other parties undertake an economic activity that is subject to joint control, arising when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Corporation reports its interests in jointly controlled entities using proportionate consolidation. The Corporation's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the acquiree. Acquisition-related costs are recognized in the income statement as incurred. Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs and reflected through net earnings. Changes in the fair value of contingent consideration classified as equity are not recognized.

Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Corporation's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with original maturities of three months or less, in addition to bank overdrafts whenever they are an integral part of the Corporation's cash management process.

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 the 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 or pay dividends.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

The reserve accounts are currently invested in cash or in short-term investments having maturities of three months or less as well as in bonds fully guaranteed by the governments.

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 less accumulated depreciation and accumulated impairment losses. 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 (i) a period of 15 to 75 years or (ii) 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 (i) a period of 15 to 25 years or (ii) the period for which the Corporation owns the rights to the assets. Others equipment are depreciated using the straight-line method over a period extending from 3 to 5 years. Improvements that increase or extend the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred. Property, plant and equipment are not depreciated until they are ready for their intended use.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of Property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in profit or loss.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

The useful life used to calculate depreciation is as follows:

| Type of property, plant and equipment | Ending years of depreciation period | Useful life for the depreciation period |
|---------------------------------------|-------------------------------------|---|
| Hydroelectric facilities | 2033 to 2079 | 15 to 75 years |
| Wind farm facilities | 2031 to 2033 | 15 to 25 years |

Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straightline basis over the period of the lease.

Intangible assets

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets consist of various permits, licenses and agreements. They are recorded at cost and amortization starts when the related facility becomes ready for its intended use. They are amortized using the straight-line method over a period of 11 to 40 years ending on the maturity date of the permits, licenses or agreements of each facility. Intangible assets related to facilities under construction are not amortized until the related facilities are ready for their intended use. Intangible assets also include the cost of an extended warranty for wind farm equipments; these costs are amortized over the three-year warranty period.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The useful life used to calculate amortization is as follows:

| Intangible assets related to : | Ending years of amortization period | Useful life for the amortization period |
|--------------------------------|-------------------------------------|---|
| Hydroelectric facilities | 2014 to 2050 | 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. Current costs for 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.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

For the purposes of impairment testing, goodwill is allocated to each of the Corporation's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the goodwill of the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Provision and asset retirement obligations

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event. It is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A legal obligation can arise through a contract, legislation, or other operation of law. A constructive obligation arises from an entity's actions whereby, through an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated it will accept certain responsibilities and has thus created a valid expectation that it will discharge those responsibilities. The amount recognized as a provision is the best estimate, at each period end, of the expenditures required to settle the present obligation considering the risks and uncertainties associated with the obligation. Where expenditures are expected to be incurred in the future, the obligation is measured at its present value using a current market-based, risk adjusted interest rate.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset retirement obligations are recorded as liabilities when those obligations are incurred and are measured as the present value of the expected costs to settle the liability, discounted at a current pre-tax rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to operating expenses. The carrying amount of the asset retirement obligation is reviewed quarterly with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset.

Financial Instruments

Financial assets and liabilities are initially recorded at fair value and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were purchased or issued, their characteristics and their designation by the Corporation.

All financial instruments are classified into one of the five categories: held-for-trading, loans and receivables, other financial liabilities, held-to-maturity investments or available-for-sale financial assets.

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are added to the carrying value of the asset or are netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

The Corporation has made the following classification:

- Cash and cash equivalents, cash and cash equivalents included in reserve accounts and derivative financial instruments were classified as held for trading. These items are measured at fair value; gains or losses arising from the revaluation at the end of each period are recorded in the Consolidated statements of Earnings.

Investment income earned on assets or liabilities designated as held for trading is included in other revenues and expenses in the Consolidated statements of Earnings.

Net gains or losses on assets or liabilities classified as held for trading are included into gain (loss) on derivative financial instruments in the Consolidated statements of Earnings. These net gains or losses do not include any investment income.

- Accounts receivable are classified as loans and receivables and are measured at amortized cost.
- Short-term investments and Government-backed securities included in Reserve accounts are classified as assets held to maturity and recorded at amortized cost.
- Accounts payable and accrued liabilities, dividends/distributions payable to shareholders/unitholders, construction holdbacks, long-term debts and convertible debentures are classified as other financial liabilities and are recorded at amortized cost.
- The Corporation does not hold any available-for-sale financial assets.

Financial instruments recognized at fair value are classified in fair value hierarchy levels as follows:

| | |
|---------|--|
| Level 1 | valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; |
| Level 2 | valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); |
| Level 3 | valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The only financial asset or liabilities measured at fair value are cash and cash equivalents which are level 1 and derivative financial instruments which are level 3 for inflation provision and level 2 for interest rate swap contracts.

Hedging relationships

Derivative financial instruments are utilized by the Corporation to manage its interest rate exposure on debt financing. The Corporation's policy is not to utilize derivative financial instruments for trading or speculative purposes.

Derivatives used as economic hedges that do not qualify for hedge accounting are recognized on the balance sheet at fair value and changes in fair value are recorded in net earnings. The Corporation does not use hedge accounting for its financial instruments.

Revenue recognition

Revenue is recognized on an accrual basis upon delivery of electricity at rates provided for under the Power Purchase Agreements entered into with the purchasing utilities.

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.

The Corporation is entitled to subsidies under the EcoEnergy program. The subsidies are equal to 1¢ per KWh produced at the Ashlu Creek, Fitzsimmons Creek and Umbata Falls hydro facilities and at the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms for the first 10 years following commissioning of each facility. 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. Gross EcoEnergy subsidies are included in the operating revenues and the 75% payable to Hydro-Québec for the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms are included in the operating expenses.

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.

Share-based compensation

The Corporation measures equity-settled stock option awards using the fair value method. Compensation expense is measured at the grant date at the fair value of the award and is recognized over the vesting period based on the Corporation's estimate of the number of options that will eventually vest. Each equity-settled share-based compensation award that vests in installments is accounted for as a separate award with its own distinct fair value measurement. The fair value of options 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 and the offset to contributed surplus are reversed. When options are exercised, the corresponding contributed surplus and the proceeds received by the Corporation are credited to capital stock.

Foreign currency translation

The Corporation, its subsidiary companies, and joint ventures each determine their functional currency based on the currency of the primary economic environment in which they operate. The Corporation's functional currency is the Canadian dollar. Transactions denominated in a currency other than the functional currency of an entity are translated at the exchange rate in effect on the transaction date. The resulting exchange gains and losses are included in each entity's net earnings in the period in which they arise.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

The Corporation's foreign operation is translated to the Corporation's presentation currency, which is the Canadian dollar, for inclusion in the consolidated financial statements. Foreign denominated monetary and non-monetary assets and liabilities of foreign operations are translated at exchange rates in effect at the end of the reporting period and revenue and expenses are translated at exchange rate in effect on the transaction date. The resulting translation gains and losses are included in Other Comprehensive Income ("OCI") with the cumulative gain or loss reported in Accumulated Other Comprehensive Income ("AOCI"). Amounts previously recognized in AOCI are recognized in net earnings when there is a reduction in the net investment as a result of a disposal, partial disposal, or loss of control.

The Corporation designates a portion of its US dollar-denominated debt to hedge its investment in its US functional currency foreign operation. Translation gains or losses on the portion of the debt designated as a hedge are included in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operations. The Corporation formally documents this hedge. On a quarterly basis, the Corporation reviews the hedge to ensure that it effectively offsets the translation gains or losses arising from its investment in its US functional currency foreign operation.

Income taxes

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

Earnings per share

Basic earnings per share are computed by dividing net earnings available to common shareholders 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 years presented.

The Corporation uses the treasury stock method and the if converted 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 year.

Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. During the reporting period, management made a number of estimates and assumptions pertaining primarily to the fair value calculation of the assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives and recoverability of property, plant and equipment and intangible assets, deferred income taxes, as well as the fair value of financial assets and liabilities including derivatives. These estimates and assumptions are based on current conditions, management's planned course of action and assumptions about future business and economic conditions. Changes in the underlying assumptions and estimates could have a material impact on the reported amounts. These estimates are reviewed periodically. If adjustments prove necessary, they are recognized in earnings in the period in which they are made.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

Critical judgments

Fair Value of Financial Instruments

Certain financial instruments, such as derivative financial instruments, are carried in the statement of financial position at fair value, with changes in fair value reflected in the income statement. Fair values are estimated by reference to published price quotations or by using other valuation techniques.

Useful Lives of Property, Plant and Equipment

Property, plant and equipment represent a significant proportion of the Corporation's total assets. The Corporation reviews estimates of the useful lives of Property, plant and equipment on an annual basis and adjust depreciation on a prospective basis, if necessary.

Goodwill Impairment

The Corporation makes a number of estimates when calculating the recoverable amount of goodwill using discounted future cash flows or other valuation methods. These estimates include the assumed growth rates for future cash flows, the numbers of years used in the cash flow model, and the discount rate.

Property, plant and equipment and Intangible impairment

The Corporation makes a number of estimates when calculating fair value using discounted future cash flows or other valuation methods. These estimates include the assumed growth rates for future cash flows, the number of years used in the cash flow model, and the discount rate.

Income Taxes

The calculation of income taxes requires judgement in interpreting tax rules and regulations. The Corporation's tax filings are also subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. The Corporation believes that it has sufficient amounts accrued for outstanding tax matters based on the information that currently is available. Deferred tax assets and liabilities require judgment in determining the amounts to be recognized. In particular, judgement is required when assessing the timing of reversal of temporary differences to which future income tax rates are applied. Further, the amount of deferred tax assets, which is limited to the amount that is more likely than not to be realized, is estimated with consideration given to the timing, sources and amounts of future taxable profit.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

5. CHANGES IN ACCOUNTING POLICIES

IFRS 11 – Joint arrangements

IAS 31 – Investments in Joint Ventures was under revision by the IASB and the new standard IFRS 11 – Joint Arrangements was published on May 12, 2011. The effective date for the application of the revised standard is January 1, 2013. IFRS 11 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.

Several investments in associates and joint ventures are consolidated in the Corporation under IFRS. These investments are either, fully consolidated or proportionally consolidated. Under the IFRS 11 revised standard, 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 Corporation has not completed its review of the new IFRS 11 standard.

IFRS 9 – Financial instrument

This standard is issued but not yet effective at the date of issuance of the Corporation's condensed consolidated interim financial statements. The standard will be effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

As part of the project to replace IAS 39, Financial Instruments: Recognition and Measurement, this standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets. More specifically, the standard:

- Deals with classification and measurement of financial assets;
- Establishes two primary measurement categories for financial assets: amortized cost and fair value;
- Prescribes that classification depends on entity's business model and the contractual cash flow characteristics of the financial asset;
- Eliminates the existing categories: held to maturity, available for sales, and loans and receivables.

Certain changes were also made regarding the fair value option for financial liabilities and accounting for certain derivatives linked to unquoted equity instruments.

The Corporation is currently assessing what the impact of adopting this standard will be on its consolidated financial statements.

6. SHARE EXCHANGE ARRANGEMENT

On March 29, 2010, the Corporation acquired from the Fund's unitholders their entire 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. The Fund was an unincorporated open-ended trust established on October 25, 2002 under the laws of the Province of Québec. The Fund, which began operations on July 4, 2003, was established to indirectly acquire and own interests in renewable power generating facilities. After the transaction, the Corporation fell under the control of the unitholders of the Fund. Therefore, this transaction resulted in a reverse acquisition.

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.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

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 deferred tax liabilities. This adjustment reflects the tax impact of recording deferred 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.

For the Fund, the anticipated benefits of the acquisition will be a significantly larger scale with increased financial strength. I will enjoy significant internal cash flow generation and enhanced access to capital markets. Improved financial strength is also expected to lower its cost of capital, facilitate and accelerate project development and enhance its anticipated return on equity.

The acquisition of the Corporation was accounted for under IFRS 3. 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 purchase price has been calculated as follows:

| | |
|--|-------------------|
| Units that would have had to be issued (in 000) | 16,015 |
| Weighted average of the price of Fund units at the closing date (\$ per Unit) | 12.08 |
| Value of Fund units that would have had to be issued | \$ 193,398 |
| Equity portion of convertible debentures (net of a \$501 deferred tax) | 1,340 |
| Fair value of vested stock options | 497 |
| Total Purchase Price | \$ 195,235 |

Under IFRS, transaction costs related to the share exchange arrangement are expensed as incurred.

The following table reflects the purchase price allocation:

| | \$ |
|---|----------------|
| Cash and cash equivalents | 88,394 |
| Accounts receivable | 4,082 |
| Prepaid and others | 781 |
| Reserve Accounts | 4,163 |
| Property, plant and equipment | 266,704 |
| Intangible assets | 116,770 |
| Investment in the Fund, an entity subject to significant influence | 57,165 |
| Derivative financial instruments | 903 |
| Other long-term assets | 63 |
| Current liabilities | (24,386) |
| Bank loan | (12,900) |
| Long-term debt and accrual for acquisition of long-term assets | (214,637) |
| Net deferred income taxes liabilities | (9,347) |
| Convertible debentures | (79,222) |
| Other long-term liabilities | (642) |
| Non-controlling interests | (2,656) |
| Net assets acquired | 195,235 |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

6. SHARE EXCHANGE ARRANGEMENT (CONTINUED)

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 portion of the unit capital of the Fund, not held by the Corporation before the transaction 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.

On March 29, 2010, the 200,000 warrants of the Corporation remained outstanding but were adjusted to their fair value which was estimated to be nil. The 705,000 stock options of the Corporation that were vested were also adjusted to their fair values. On August 29, 2010, the warrants expired.

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 IFRS, the Fund had to expense the engagement it had with Innergex prior to the combination. In 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.

Following the reverse take-over, the Corporation and the Fund were combined and refinanced. It is not possible to segregate and identify the result and profit of each of the former entities.

If the acquisition had taken place on January 1, 2010, the consolidated revenues and profit (loss) of the Combined Entity for the three-month period ended March 31, 2010 would have been \$20,634 and \$(67,057).

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

7. PROPERTY, PLANT AND EQUIPMENT

| | Land | Hydroelectric facilities | Wind Farm facilities | Wind Farm facilities under construction | Other equipment | Total |
|---------------------------------------|-----------|--------------------------|----------------------|---|-----------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Gross carrying amount | | | | | | |
| As at January 1, 2011 | 70 | 447,777 | 197,456 | 31,148 | 1,917 | 678,368 |
| Additions | - | 30 | 48 | 1,445 | 120 | 1,643 |
| Business Acquisitions | - | - | - | - | - | - |
| Dispositions | - | - | - | - | - | - |
| Net foreign exchange differences | (2) | (132) | - | - | - | (134) |
| As at March 31, 2011 | 68 | 447,675 | 197,504 | 32,593 | 2,037 | 679,877 |
| Accumulated depreciation | | | | | | |
| As at January 1, 2011 | - | (43,599) | (21,838) | - | (621) | (66,058) |
| Depreciation | - | (2,903) | (2,376) | - | (124) | (5,403) |
| Dispositions | - | - | - | - | - | - |
| Net foreign exchange differences | - | 29 | - | - | - | 29 |
| As at March 31, 2011 | - | (46,473) | (24,214) | - | (745) | (71,432) |
| Net value as at March 31, 2011 | 68 | 401,202 | 173,290 | 32,593 | 1,292 | 608,445 |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Land | Hydroelectric facilities | Wind Farm facilities | Wind Farm facilities under construction | Other equipment | Total |
|--|-----------|--------------------------|----------------------|---|-----------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Gross carrying amount | | | | | | |
| As at January 1, 2010 | 74 | 245,304 | 133,069 | - | 560 | 379,007 |
| Additions | - | 941 | 318 | 31,148 | 635 | 33,042 |
| Business Acquisitions | - | 201,831 | 64,069 | - | 803 | 266,703 |
| Dispositions | - | - | - | - | (80) | (80) |
| Net foreign exchange differences | (4) | (299) | - | - | (1) | (304) |
| As at December 31, 2010 | 70 | 447,777 | 197,456 | 31,148 | 1,917 | 678,368 |
| Accumulated depreciation | | | | | | |
| As at January 1, 2010 | - | (33,402) | (13,131) | - | (310) | (46,843) |
| Depreciation | - | (10,250) | (8,707) | - | (391) | (19,348) |
| Dispositions | - | - | - | - | 80 | 80 |
| Net foreign exchange differences | - | 53 | - | - | - | 53 |
| As at December 31, 2010 | - | (43,599) | (21,838) | - | (621) | (66,058) |
| Net value as at December 31, 2010 | 70 | 404,178 | 175,618 | 31,148 | 1,296 | 612,310 |

All of the property, plant and equipment are given as securities under the respective project financing or for the corporate financing.

Property, plant and equipment include capitalized financing costs of \$894 (\$607 at December 31, 2010 incurred prior to their intended use or sale).

The financing costs related to a specific project financing are entirely capitalized to the specific property, plant and equipment. Financing costs related to corporate financing are capitalized for the portion of the financing actually used for a specific property, plant and equipment.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

8. COMPUTATION OF EARNINGS AVAILABLE TO COMMON SHAREHOLDERS

The net earnings (loss) of the Corporation is adjusted for the preferential dividend declared on the preferred shares as follows:

| | Three-month period ended March 31, 2011 | Three-month period ended March 31, 2010 |
|---|---|---|
| | \$ | \$ |
| Net earnings (loss) attributable to owners of the parent | 5,975 | (64,907) |
| Add: | | |
| Distributions declared to former unitholders | - | 7,238 |
| Less: | | |
| Dividends declared on Series A preferred shares (including taxes) | (1,128) | - |
| Net earnings (loss) available to common shareholders | 4,847 | (57,669) |
| Weighted average number of shares/units (when considering the 1.46 conversion ratio) outstanding (in 000) | 59,533 | 43,299 |
| Basic net earnings (loss) per share (\$) | 0.08 | (1.33) |
| Weighted average number of shares/units (when considering the 1.46 conversion ratio) outstanding (in 000) | 59,533 | 43,299 |
| Effect of dilutive stock options (in 000) | 71 | - |
| Diluted weighted average number of shares/units (when considering the 1.46 conversion ratio) outstanding (in 000) | 59,604 | 43,299 |
| Diluted net earnings (loss) per share (\$) | 0.08 | (1.33) |

During the period covered by the financial statements, 1,034,000 stock options (1,269,000 as of March 31, 2010), nil warrants (200,000 as of March 31, 2010) and 7,558,684 shares potentially issued on conversion of convertible debentures (7,558,684 as of March 31, 2010) were excluded in the calculation of diluted weighted average number of shares/units outstanding.

For the three-month period ended March 31, 2010, net loss per share has been calculated using an adjusted net loss amount. The distribution to unitholders has been reclassified and excluded from the net loss for the purpose of the net loss per share calculation in order to make the calculation consistent with the current year.

During the period covered by the financial statements, all of the issued convertible debentures, 1,034,000 of 1,842,024 stock options and the warrants were excluded from the calculation of diluted net earnings (loss) per share as the exercise price was above the average market price of ordinary shares during the period.

9. DIVIDENDS

a) Dividends on Series A preferred Shares

On March 23, 2011, the Corporation declared a dividend of \$0.3125 per Series A preferred share paid on April 15, 2011 to Series A preferred shareholders of record at the close of business on March 31, 2011.

b) Dividends on Common Shares

On March 23, 2011, the Corporation declared a dividend of \$0.145 per common share paid on April 15, 2011, to common shareholders of record at the close of business on March 31, 2011.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

10. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital items

| | March 31, 2011 | March 31, 2010 |
|--|----------------|----------------|
| | \$ | \$ |
| Accounts receivable | 2,794 | 413 |
| Prepaid and others | 175 | 254 |
| Accounts payable and accrued liabilities | 1,480 | (402) |
| | 4,449 | 265 |

Additional information

| | | |
|--|-------|-------|
| Interest paid (including capitalized interest) | 5,653 | 3,402 |
|--|-------|-------|

Non-cash transactions

| | | |
|---|---------|-----|
| (Decrease) increase of unpaid Property, plant and equipment | (4,456) | 156 |
| Increase of unpaid Project development costs | 382 | - |
| Increase of long-term holdbacks | 50 | - |
| Increase of unpaid Intangibles assets | 171 | - |
| Decrease of unpaid long-term assets | (50) | - |
| Increase of unpaid financing fees | 16 | - |

11. KEY MANAGEMENT PERSONNEL COMPENSATION

The following are the expenses that the Corporation recognized for its key management personnel. The members of the Board of Directors as well as the President and all the Vice-Presidents are key management personnel of the Corporation.

| | March 31, 2011 | March 31, 2010 |
|---|----------------|----------------|
| | \$ | \$ |
| Salaries and short-term benefits | 780 | 21 |
| Attendance fees for members of the Board of Directors | 161 | 211 |
| Termination benefits | - | - |
| Share-based compensation | 130 | 1 |
| | 1,071 | 233 |

12. EMPLOYEE BENEFITS

The following are the expenses that the Corporation recognized for its employee benefits. The expenses were included in the following accounts:

| | March 31, 2011 | March 31, 2010 |
|--|----------------|----------------|
| | \$ | \$ |
| Share-based compensation | 130 | 1 |
| General and administrative | 997 | 127 |
| Prospective projects expenses | 243 | - |
| Transaction costs | 483 | 120 |
| Capitalized in Property, plant and equipment | 355 | - |
| Capitalized in Project development costs | 360 | - |
| | 2,568 | 248 |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

13. FINANCE COSTS

| | March 31, 2011 | March 31, 2010 |
|--|----------------|----------------|
| | \$ | \$ |
| Interest on long-term debt and on convertible debentures | 6,734 | 3,220 |
| Amortization of financing fees | 53 | 571 |
| Accretion expense on asset retirement obligations | (75) | 153 |
| Amortization of reevaluation of long-term debt and of convertible debentures | 16 | (37) |
| | 6,728 | 3,907 |

14. 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 first quarter ended March 31, 2011, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$362 (\$228 in 2010), representing a contribution of 1.7 % (1.6 % in 2010) to the Corporation's consolidated operating revenues for this period.

Major customers

A major customer is defined as an external customer whose transaction with the Corporation amount to 10 per cent or more of the Corporation's annual revenues. The Corporation has identified 2 major customers whose sales to are the following:

| Major customer | Segment | Three-month period ended March 31, 2011 | Three-month period ended March 31, 2010 |
|--|---|--|--|
| | | \$ | \$ |
| Hydro-Québec | Hydroelectric and wind power generation | 14,967 | 11,857 |
| British Columbia Hydro and Power authority | Hydroelectric generation | 1,820 | 509 |
| | | 16,787 | 12,366 |

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, wind farms and solar photovoltaic 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.

Notes to the Condensed Consolidated Financial Statements

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

14. SEGMENT INFORMATION (CONTINUED)

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, as the Fund was solely an operator.

| Reportable Segments | Three-month period ended March 31, 2011 | | | |
|--|---|-----------------------|------------------|---------|
| | Hydroelectric Generation | Wind Power Generation | Site Development | Total |
| | \$ | \$ | \$ | \$ |
| Operating revenues | 11,828 | 8,988 | - | 20,816 |
| Expenses: | | | | |
| Operating | 2,381 | 1,406 | - | 3,787 |
| Share-based compensation | 50 | 30 | 50 | 130 |
| General and administrative | 796 | 504 | 568 | 1,868 |
| Prospective projects expenses | - | - | 307 | 307 |
| Earnings before interests, income taxes, depreciation and amortization and other items | 8,601 | 7,048 | (925) | 14,724 |
| Finance costs | | | | 6,728 |
| Transaction costs | | | | 1,111 |
| Other net revenues | | | | (162) |
| Earnings before income taxes, depreciation and amortization and other items | | | | 7,047 |
| Depreciation | | | | 5,403 |
| Amortization | | | | 3,862 |
| Unrealized net (gain) loss on derivative financial instruments | | | | (9,534) |
| Unrealized net (gain) loss on foreign exchange | | | | (41) |
| Earnings before income taxes | | | | 7,357 |
| As at March 31, 2011 | | | | |
| Total assets | 590,691 | 258,295 | 87,496 | 936,482 |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

14. SEGMENT INFORMATION (CONTINUED)

| Reportable Segments | Three-month period ended March 31, 2010 | | | |
|--|---|--------------------------|---------------------|----------|
| | Hydroelectric Generation | Wind Power Generation | Site Development | Total |
| | \$ | \$ | \$ | \$ |
| Operating revenues | 8,845 | 5,153 | - | 13,998 |
| Expenses: | | | | |
| Operating | 1,376 | 913 | - | 2,289 |
| Share-based compensation | - | - | 1 | 1 |
| General and administrative | 608 | 227 | 134 | 969 |
| Prospective projects expenses | - | - | 10 | 10 |
| Earnings before interests, income taxes, depreciation and amortization and other items | 6,861 | 4,013 | (145) | 10,729 |
| Finance costs | | | | 3,907 |
| Transaction costs | | | | 5,330 |
| Other net revenues | | | | (61) |
| Earnings before income taxes, depreciation and amortization and other items | | | | 1,553 |
| Depreciation | | | | 3,112 |
| Amortization | | | | 2,429 |
| Unrealized net loss on derivative financial instruments | | | | 2,040 |
| Unrealized loss on unitholders capital | | | | 51,761 |
| Expense related to royalty agreement upon share exchange arrangement | | | | 983 |
| Unrealized net (gain) loss on foreign exchange | | | | (45) |
| Earnings (loss) before income taxes and distributions | | | | (58,727) |
| As at December 31, 2010 | | | | |
| Total assets | 600,007 | 264,449 | 82,684 | 947,140 |

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

15. COMPARATIVE FIGURES

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

16. SUBSEQUENT EVENTS

a) Dividends on Series A Preferred Shares

On June 7, 2011, the Corporation declared a dividend of \$0.3125 per Series A preferred share payable on July 15, 2011, to Series A preferred shareholders of record at the close of business on June 30, 2011.

b) Dividends on Common Shares

On June 7, 2011, the Corporation declared a dividend of \$0.145 per common share payable on July 15, 2011, to common shareholders of record at the close of business on June 30, 2011.

c) Acquisition of Cloudworks Energy Inc. and \$165,963 Equity Offering

On April 4, 2011, the Corporation announced that it had finalized the acquisition of all of the issued and outstanding shares of Cloudworks Energy Inc. ("Cloudworks") (the "Cloudworks Acquisition"). The aggregate consideration, subject to certain adjustments, was approximately \$187,000, approximately \$148,000 of which was payable in cash (the "Cash Consideration") and approximately \$39,000 of which was payable by the issuance, by way of private placement, of common shares of the Corporation at a price of \$9.75 per common share.

Cloudworks' portfolio of assets consists of a 50.01% interest in six run-of-river hydroelectric facilities with a combined gross installed capacity of 150 megawatts; full ownership of 76 MW of run-of-river hydroelectric projects under development with 40-year Power Purchase Agreements ("PPAs"); and full ownership of run-of-river hydroelectric projects in various stages of development with a potential aggregate installed capacity of over 800 MW.

All power generated from the operating facilities is sold to British Columbia Hydro and Power Authority under 40-year PPAs.

To finance the Cash Consideration, the Corporation sold subscription receipts of the Corporation through a syndicate of underwriters on a bought-deal basis. The agreement with the syndicate included the issuance of 17,750,000 subscription receipts at a price of \$9.35 per subscription receipt to raise gross proceeds of approximately \$166,000. The proceeds of the subscription receipt financing were held in escrow pending the completion of the Cloudworks Acquisition. The subscription receipts have therefore been exchanged on a one-for-one basis for common shares of Innergex upon the closing of the Acquisition for no additional consideration or further action.

d) Acquisition of Stardale Solar Project

On April 20, 2011, Innergex announced it had completed the acquisition of all the issued and outstanding shares of the entity owning the rights to develop the 33.2 MW_{DC} Stardale Photovoltaic Solar Project (the "Stardale Project"), located in Ontario, Canada. Once completed, the Stardale Project would become the second most important solar project in Canada.

Subject to certain adjustments, the total development costs are expected to be approximately \$140,000. This amount includes the \$11,100 consideration to be paid under the share purchase agreement, the \$118,900 pertaining to the engineering, procurement and construction contract, and other development costs and transactional expenses.

On April 28, 2011, the Corporation agreed to the terms and conditions of a Commitment Letter for the complete debt financing of the Stardale Project.

Construction of the Stardale Project began in November 2010, and is expected to be completed in the first quarter of 2012. All of the energy delivered by the Stardale Project is covered by three Renewable Energy Standard Offer Program Contracts ("RESOP Contracts") with the Ontario Power Authority, with 20-year term each beginning on the commercial operation date.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

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

16. SUBSEQUENT EVENTS (CONTINUED)

e) Reduction of the Stated Capital Account of the Corporation

On May 10, 2011, during the Annual and special meeting of shareholders of the Corporation, the special resolution to approve the reduction of the stated capital account maintained in respect of the common shares of the Corporation, without any payment or distribution to the shareholder, to \$500, was adopted. As a result, an amount equal to the difference between the stated capital account maintained in respect of the common shares as at May 10, 2011 and \$500 will be credited to the contributed surplus account of the Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This Management's Discussion and Analysis ("MD&A") has been prepared as at June 7, 2011.

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-month period ended March 31, 2011.

This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes for the three-month period ended March 31, 2011, and with the 2010 annual report of Innergex. **The consolidated quarterly financial statements contained in this MD&A and the accompanying notes for the three-month period ended March 31, 2011, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Previously issued financial statements and MD&A were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").**

Comparative figures at the transition date (January 1, 2010), as well as at March 31, 2010, and December 31, 2010, were converted to IFRS and are presented as such in the condensed consolidated interim financial statements. A more detailed discussion of the impact of the conversion from Canadian GAAP to IFRS can be found in the "Accounting Changes" section of this MD&A. Furthermore, the impacts of the transition from Canadian GAAP to IFRS are presented in Note 1 of the condensed consolidated interim financial statements for the three-month period ended March 31, 2011.

Some amounts included in this MD&A have been rounded to make reading easier. These rounded numbers may affect some calculations.

ESTABLISHMENT AND MAINTENANCE 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 and annual 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 applicable 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 IFRS 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 certified that there were no material weaknesses relating to the DC&P and ICFR for the three-month period ended March 31, 2011, and that there was no change to the ICFR that has materially affected, or is reasonably likely to affect, the ICFR.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 "Risks 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, wind and sun light; 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.

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, wind power and solar photovoltaic 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"). The Corporation is rated BBB- by Standard and Poor's Rating Services ("S&P") and BBB (low) by DBRS Limited ("DBRS").

Acquisition of Cloudworks Energy Inc. and \$166 Million Equity Offering

On April 4, 2011, Innergex announced that it had finalized the acquisition of all of the issued and outstanding shares of Cloudworks Energy Inc. ("Cloudworks") (the "Cloudworks Acquisition"). The aggregate consideration, subject to certain adjustments, was approximately \$187 million (the "Purchase Price").

Cloudworks' portfolio of assets consists of a 50.01% interest in six run-of-river hydroelectric facilities (the "Harrison Operating Facilities") with a combined gross installed capacity of 150 MW; full ownership of 75.6 MW of run-of-river hydroelectric projects under development with 40-year Power Purchase Agreements ("PPA"); and full ownership of run-of-river hydroelectric projects in various stages of development with a potential aggregate installed capacity of over 800 MW. The Cloudworks' assets have increased the Corporation's installed capacity by 23% (from 325.5 MW to 400.5 MW). The Cloudworks Acquisition, including the related Development Projects, has increased Innergex's weighted average remaining PPA term from approximately 21 to 25 years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

All power generated from the operating facilities is sold to British Columbia Hydro and Power Authority ("BC Hydro") under 40-year PPAs. The average price for electricity purchased under the PPAs for the operating facilities is adjusted annually by a portion of the consumer price index ("CPI"). The Harrison Operating Facilities are expected to generate approximately \$47 million in revenues annually (based on 100% ownership). For their first ten years of operation, the Harrison Operating Facilities are qualified under the Federal Government's ecoENERGY Initiative which generates an additional \$10 per megawatt-hour ("MWh") produced, up to a maximum amount of approximately \$6 million per year.

The enterprise value of the Cloudworks Acquisition was approximately \$415 million. In addition to the \$187 million Purchase Price, Innergex's share of the Harrison Operating Facilities' non-recourse long-term debt was approximately \$265 million (based on a 50.01% ownership). However, Innergex benefited from its share of cash on hand and funded reserve accounts, which are subject to certain restrictions, for an aggregate total of approximately \$35 million. Based on its preliminary purchase allocation assessment, the Corporation has adjusted its portion of the amount of the assumed non-recourse long-term debt to its fair market value of \$236 million.

To finance the Purchase Price, subscription receipts of Innergex were sold through a syndicate of underwriters on a bought-deal basis. The agreement with the syndicate included the issuance of 17,750,000 subscription receipts at a price of \$9.35 per subscription receipt to raise gross proceeds of approximately \$166 million. The proceeds of the subscription receipt financing were held in escrow pending the completion of the Cloudworks Acquisition. The subscription receipts were subsequently exchanged on a one-for-one basis for common shares of Innergex upon the closing of the Cloudworks Acquisition for no additional consideration or further action. Of these proceeds, approximately \$148 million was used for the Cloudworks Acquisition. The remaining portion of the Purchase Price was paid by the issuance, by way of private placement, of common shares of the Corporation at a price of \$9.75 per common share for proceeds of approximately \$39 million.

For more information about the Cloudworks Acquisition, please refer to the "Short Form Prospectus" dated February 25, 2011 (the "Prospectus") available on Innergex's website at www.innergex.com and on the SEDAR website at www.sedar.com

Acquisition of Stardale Solar Project

On April 20, 2011, Innergex announced it had completed the acquisition of all the issued and outstanding shares of the entity owning the rights to develop the 33.2 MW_{DC} Stardale Photovoltaic ("PV") Solar Project (the "Stardale Project"), located in Ontario. Innergex estimates its EBITDA (defined as earnings before interest, provision for income taxes, depreciation and amortization and other items) contribution at approximately \$15 million for the first full year of operation. Once completed, the Stardale Project will be the second largest solar project in Canada.

Subject to certain adjustments, the total development costs are expected to be approximately \$140 million. This amount includes the \$11.1 million consideration to be paid with cash on hand under the share purchase agreement, the \$118.9 million pertaining to the engineering, procurement and construction ("EPC") contract and other development costs and transactional expenses.

On April 28, 2011, the Corporation agreed to the terms and conditions of a Commitment Letter for the construction and long-term debt financing of the Stardale Project. This Commitment Letter is subject to closing conditions.

Construction of the Stardale Project began in November 2010 and is expected to be completed in the first quarter of 2012. The Stardale Project consists of a ground-mounted PV array system, comprising a total of approximately 144,060 SolarWorld SW 230 polycrystalline PV modules. The forecast annual electric energy output is estimated at 39 gigawatt-hours ("GWh"). All of the energy delivered by the Stardale Project is covered by three Renewable Energy Standard Offer Program Contracts with the Ontario Power Authority ("OPA"), each with a 20-year term beginning on the commercial operation date.

Strategic Combination of the Fund and Innergex

On March 29, 2010, Innergex Power Income Fund (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 IFRS, the historical results for the quarter ended March 31, 2010 and the year ended December 31, 2010, are those of the Fund, including Innergex's contribution as of March 30, 2010.

As a result of this Combination and unless otherwise noted, the terms "Innergex Renewable Energy Inc.," "Innergex" and the "Corporation" as used in 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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.

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 or for which a proposal has either 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").

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

- 23 operating facilities with an aggregate net installed capacity of 400.5 MW (gross 687.8 MW). These consist of 20 hydroelectric facilities and three wind farms with aggregate net installed capacities of 279.1 MW (gross 368.3 MW) and 121.4 MW (gross 319.5 MW) respectively. Commissioned between November 1994 and April 2010, the facilities have a weighted average age of approximately 5.5 years. They sell the generated power under long-term PPAs that have a weighted average remaining life of 20.6 years;
- 11 development projects with an aggregate net installed capacity of 311.7 MW (gross 541.7 MW) for which PPAs with public utilities have been secured. Construction began on four of these projects, a limited notice to proceed was issued on another one and construction is expected to begin on the remaining six projects between 2011 and 2014. The projects are expected to reach the commercial operation stage between 2011 and 2016; and
- a net capacity of more than 2,800 MW (gross 3,000 MW) in prospective projects that are at various stages of development.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

INNERGEX

Renewable Energy.
Sustainable Development.

| Operating Facilities | Development Projects | Prospective Projects |
|--|---|---|
| <p>Hydro</p> <ul style="list-style-type: none"> - 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) - 50% Douglas Creek, BC (27.0 MW) - 50% Fire Creek, BC (23.0 MW) - 50% Stokke Creek, BC (22.0 MW) - 50% Tipella Creek, BC (18.0 MW) - 50% Lamont Creek, BC (27.0 MW) - 50% Upper Stave River, BC (33.0 MW) - 66% Fitzsimmons Creek, BC (7.5 MW) - 100% Horseshoe Bend, Idaho, USA (9.5 MW) <p>Wind</p> <ul style="list-style-type: none"> - 38% Baie-des-Sables, QC (109.5 MW) - 38% L'Anse-à-Valleau, QC (100.5 MW) - 38% Carleton, QC (109.5 MW) | <p>Hydro</p> <ul style="list-style-type: none"> - 50% Kwoiek Creek, BC (49.9 MW) - 100% Northwest Stave, BC (17.5 MW) - 66% Boulder Creek, BC (23.0 MW) - 100% Tretheway Creek, BC (21.2 MW) - 66% North Creek, BC (16.0 MW) - 66% Upper Lillooet, BC (74.0 MW) - 100% Big Silver-Shovel Creek, BC (36.9 MW) <p>Wind</p> <ul style="list-style-type: none"> - 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) <p>Solar</p> <ul style="list-style-type: none"> - 100% Stardale, ON (33.2 MW) | <p>Hydro</p> <ul style="list-style-type: none"> - 48% QC Projects (42.0 MW) - 100% BC Projects (819.8 MW) - 66% BC Projects (132.0 MW) <p>Wind</p> <ul style="list-style-type: none"> - 100% QC Projects (836.0 MW) - 70% QC Projects - Community (98.4 MW) - 50% Viger-Denonville, QC (24.6 MW) - 50% QC Projects - Community (49.2 MW) - 100% ON Projects - FIT (440.0 MW) - 49% ON Projects - FIT (25.3 MW) - 100% BC Projects (475.0 MW) <p>Solar</p> <ul style="list-style-type: none"> - 100% ON Projects - FIT (59.0 MW) |
| <p>Hydro</p> <p>Gross capacity: 368.3 MW Net capacity¹: 279.1 MW</p> <p>Wind</p> <p>Gross capacity: 319.5 MW Net capacity¹: 121.4 MW</p> <p>Solar</p> <p>Gross capacity: - Net capacity¹: -</p> <p>Total</p> <p>Gross capacity: 687.8 MW Net capacity¹: 400.5 MW</p> | <p>238.5 MW 175.9 MW</p> <p>270.0 MW 102.6 MW</p> <p>33.2 MW 33.2 MW</p> <p>541.7 MW 311.7 MW</p> | <p>993.8 MW 928.0 MW</p> <p>1,948.5 MW 1,869.2 MW</p> <p>59.0 MW 59.0 MW</p> <p>3,001.3 MW 2,856.2 MW</p> |

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, except as noted, and amounts per 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 common 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 MWh and GWh, adjusted cash flows from operating activities; adjusted net earnings (loss); and EBITDA. These indicators are not recognized measures under IFRS 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. Innergex owns interests in 20 hydroelectric facilities, which draw on 17 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

| Operating Facilities – Estimated Long-Term Averages | | | | | | | | |
|---|-----------------------|--------------------------|--|--|-------|-------|-------|---------|
| Project name | Electricity purchaser | PPA expiry | Net installed capacity ¹ (MW) | Average long-term production (GWh) (Net interest) ² | | | | |
| | | | | Q1 | Q2 | Q3 | Q4 | Total |
| <i>HYDRO</i> | | | | | | | | |
| St-Paulin | HQ ³ | 2014 ⁴ | 8.0 | 7.4 | 15.5 | 8.0 | 10.1 | 41.1 |
| Windsor | HQ ³ | 2016 ⁴ | 5.5 | 9.7 | 7.8 | 5.6 | 7.9 | 31.0 |
| Chaudière | HQ ³ | 2019 ⁴ | 24.0 | 26.0 | 40.8 | 17.6 | 32.2 | 116.7 |
| Portneuf-1 | HQ ³ | 2021 ⁵ | 8.0 | 4.3 | 14.9 | 11.5 | 10.1 | 40.8 |
| Portneuf-2 | HQ ³ | 2021 ⁵ | 9.9 | 10.0 | 20.1 | 19.3 | 19.1 | 68.5 |
| Portneuf-3 | HQ ³ | 2021 ⁵ | 8.0 | 4.4 | 15.6 | 11.9 | 10.4 | 42.4 |
| Montmagny | HQ ³ | 2021 ⁵ | 2.1 | 1.4 | 3.2 | 1.0 | 2.3 | 8.0 |
| Glen Miller | OPA ⁶ | 2025 | 8.0 | 13.5 | 11.9 | 4.5 | 11.7 | 41.6 |
| Umbata Falls | OPA ⁶ | 2028 | 11.3 | 8.3 | 18.5 | 10.4 | 16.2 | 53.5 |
| Batawa | OEFC ⁷ | 2029 | 5.0 | 10.8 | 8.9 | 3.7 | 9.5 | 32.9 |
| Rutherford Creek | BC Hydro ⁸ | 2024 | 49.9 | 11.0 | 63.7 | 80.0 | 25.3 | 180.0 |
| Ashlu Creek | BC Hydro ⁸ | 2039 | 49.9 | 26.9 | 92.0 | 95.1 | 51.0 | 265.0 |
| Douglas Creek | BC Hydro ⁸ | 2049 | 13.5 | 13.2 | 40.9 | 18.6 | 19.9 | 92.6 |
| Fire Creek | BC Hydro ⁸ | 2049 | 11.5 | 17.3 | 40.6 | 18.6 | 17.7 | 94.2 |
| Lamont Creek | BC Hydro ⁸ | 2049 | 13.5 | 17.2 | 41.0 | 23.7 | 23.3 | 105.2 |
| Stokke Creek | BC Hydro ⁸ | 2049 | 11.0 | 12.5 | 37.2 | 23.2 | 15.2 | 88.0 |
| Tipella Creek | BC Hydro ⁸ | 2049 | 9.0 | 8.8 | 29.0 | 18.8 | 13.4 | 70.0 |
| Upper Stave River | BC Hydro ⁸ | 2049 | 16.5 | 16.0 | 53.8 | 47.4 | 27.2 | 144.4 |
| Fitzsimmons Creek | BC Hydro ⁸ | 2050 | 5.0 | 3.3 | 10.9 | 13.3 | 5.4 | 33.0 |
| Horseshoe Bend | IPC ⁹ | 2030 | 9.5 | 7.9 | 17.0 | 16.7 | 5.2 | 46.8 |
| Subtotal | | | 279.1 | 230.1 | 583.3 | 449.1 | 333.1 | 1,595.5 |
| <i>WIND</i> | | | | | | | | |
| Baie-des-Sables ("BDS") | HQ ³ | 2026 | 41.6 | 35.7 | 25.0 | 18.6 | 34.1 | 113.4 |
| L'Anse-à-Valleau ("AAV") | HQ ³ | 2027 | 38.2 | 38.2 | 22.9 | 16.5 | 35.7 | 113.2 |
| Carleton ("CAR") | HQ ³ | 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 | | 20.6 years ¹⁰ | 400.5 | 342.1 | 659.3 | 508.3 | 441.9 | 1,951.5 |

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

2. Net interest adjusted in accordance with revenue recognition accounting rules under IFRS.

3. Hydro-Québec.

4. These PPAs are renewable at the Corporation's option for an additional term of 20 years.

5. These PPAs are renewable at the Corporation's option for an additional term of 25 years.

6. Ontario Power Authority.

7. Ontario Electricity Financial Corporation.

8. British Columbia Hydro and Power Authority.

9. Idaho Power Company.

10. Remaining weighted average life of PPAs, before consideration of renewal options.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

QUARTERLY UPDATE

| Highlights | Three-month period ended March 31, 2011 | Three-month period ended March 31, 2010 |
|--|--|--|
| | \$ | \$ |
| Power generated (MWh) ¹ | 240,180 | 157,666 |
| Operating revenues | 20,816 | 13,998 |
| EBITDA | 14,724 | 10,729 |
| Net earnings (loss) | 5,730 | (64,913) |
| Adjusted cash flows from operating activities | 10,842 | 7,453 |
| Dividends declared on Series A Preferred Shares | 1,063 | - |
| Dividends declared on common shares | 8,632 | 7,238 |
| Dividends declared on common shares (\$ per share) | 0.145 | 0.169 |

1. In accordance with IFRS, the power generated for the three-month period ended March 31, 2010, is that of the Fund including Innergex's contribution for the last two days of the first quarter of 2010.

The Combination accounts for the main differences between 2011 and 2010. The addition of the Pre-Combination Innergex's five Operating Facilities (total net installed capacity of 115.8 MW) to the Fund's 12 Operating Facilities (total net installed capacity of 209.7 MW) is mainly responsible for the increases in the power generated, operating revenues, EBITDA and adjusted cash flows from operating activities. The important fluctuation on net earnings came mainly from the unrealized net gain on derivative financial instruments recorded in 2011 and the unrealized loss on unitholders' capital recorded in 2010.

Adjusted Net Earnings (Loss)

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 net gains/losses on derivative financial instruments, unrealized loss on unitholders' capital and unrealized net gains/losses on foreign exchange as well as any associated deferred tax expense/income. When applicable, adjusted net earnings also exclude some non-recurring items. The Corporation calculates adjusted net earnings as shown below:

| Adjusted Net Earnings (Loss) | Three-month period ended March 31, 2011 | Three-month period ended March 31, 2010 |
|---|--|--|
| | \$ | \$ |
| Net earnings (loss) | 5,730 | (64,913) |
| Add (deduct): | | |
| Non-cash expense related to royalty agreement | - | 983 |
| Unrealized net (gain) loss on derivative financial instruments | (9,534) | 2,040 |
| Unrealized loss on unitholders' capital | - | 51,761 |
| Unrealized net gain on foreign exchange | (41) | (45) |
| Deferred income taxes (recovery) associated with the above elements | 2,585 | (804) |
| Adjusted net loss | (1,260) | (10,978) |

Unrealized net gains/losses on derivative financial instruments are the most volatile of these elements. The Corporation uses derivative financial instruments to manage its exposure to the risk of increasing interest rates on its debt financing ("Derivatives"). Since several Derivatives are entered into for a term equal in length to the underlying debt amortization schedule which can reach 25 years, a Derivative's fair market value can be very sensitive to day-to-day variations in long-term interest rates. Please refer to the "Derivative Financial Instruments and Risk Management" section of this MD&A for more information about Derivatives.

For the first quarter of 2011, the variation in adjusted net earnings is mainly due to a \$4.0 million increase in EBITDA, which is detailed in the Operating Results' table, a \$4.2 million decrease in transaction costs and non-recurrent distributions declared to unitholders in 2010 for an amount of \$7.2 million, partly offset by a \$2.8 million increase in finance costs and a \$3.7 million increase in depreciation and amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The unrealized loss on unitholders' capital had a significant impact in the first quarter of 2010 due to the conversion to IFRS. This element was eliminated as a result of the Combination. Please refer to the "Unrealized loss on unitholders' capital" section of this MD&A for more information.

Financing Activities

On April 28, 2011, the Corporation agreed to the terms and conditions of a Commitment Letter for the construction and long-term debt financing of the Stardale Project. This Commitment Letter is subject to closing conditions.

Development Projects

The Corporation owns eleven Development Projects. Of these, construction of the Montagne-Sèche and Gros-Morne Phase I and Phase II wind farm projects began in June 2010 and construction of the Stardale Project began in November 2010. Pre-engineering and preliminary work for the Kwoiek Creek hydroelectric project began in the fourth quarter of 2010 and construction of the North West Stave hydroelectric project is expected to start during the third quarter of 2011. The remaining five hydroelectric projects have entered the permit phase. The following two tables provide an overview of these Development Projects.

| Development Projects (under construction) | | | | | | | |
|---|-------------------------|--|--------------------------|----------------------------|---------------------------|-------------------|------------------|
| Project name and location | Installed capacity (MW) | Estimated long-term average production (GWh) | Total construction costs | | Expected COD ¹ | Expected year-one | |
| | | | Estimated (\$M) | As at March 31, 2011 (\$M) | | Revenues (\$M) | EBITDA (\$M) |
| <i>WIND</i> | | | | | | | |
| Montagne-Sèche, QC ² | 58.5 | 193.4 | 103.0 | 11.6 ³ | Q4 2011 | 4.8 ³ | 4.3 ³ |
| Gros-Morne – Phase I, QC ² | 100.5 | 308.9 | 348.5 | 25.7 ³ | Q4 2011 | 7.8 ³ | 6.9 ³ |
| Gros-Morne – Phase II, QC ² | 111.0 | 341.1 | for both phases | for both phases | Q4 2012 | 8.6 ³ | 7.5 ³ |
| <i>SOLAR</i> | | | | | | | |
| Stardale, ON | 33.2 | 39.0 | 140.0 | N/A ⁴ | Q1 2012 | 16.6 | 15.1 |

1. Commercial Operation Date

2. The Corporation owns 38% of this project.

3. Representing the Corporation's 38% interest in this project.

4. The acquisition of the Stardale Solar Project had not been completed as at March 31, 2011.

Montagne-Sèche

The construction of this wind farm began in the second quarter of 2010. At the end of the first quarter of 2011, more than half of the roads were built, the substation was 50% completed and 12 out of the 39 foundations were completed. As planned, construction activities were halted for the winter period and resumed this spring. Innergex expects the Montagne-Sèche project to be completed by December 1, 2011.

Gros-Morne, Phase I and II

The construction of these wind farms began in the second quarter of 2010. At the end of first quarter 2011, more than 65% of roads were built, the substation was 53% completed and 32 out of the 67 foundations planned for Phase I were completed. As planned, construction activities were halted for the winter period and resumed this spring. Innergex expects the 100.5 MW Gros-Morne Phase I project to be completed by December 1, 2011, and the Gros-Morne Phase II project to be completed by December 1, 2012.

Stardale

The construction of this solar farm began in November 2010. Construction is progressing as scheduled: fencing and clearing are complete and current on-site work includes landscaping and construction of access and service roads. Innergex expects the Stardale project to be completed by the end of the first quarter of 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

| Development Projects (permit phase) | | | | |
|--|-------------------------|--------------------------|-----------------------------------|--------------|
| Project name and location | Installed capacity (MW) | Total construction costs | | |
| | | Estimated (\$M) | Actual as at March 31, 2011 (\$M) | Expected COD |
| <i>HYDRO</i> | | | | |
| Kwoiek Creek, BC ¹ | 49.9 | 152.1 | 13.3 | 2013 |
| Northwest Stave River, BC | 17.5 | 69.8 | N/A ² | 2013 |
| Boulder Creek, BC ³ | 23.0 | 84.0 | 0.1 | 2015 |
| Tretheway Creek, BC | 21.2 | 78.1 | N/A ² | 2015 |
| North Creek, BC ³ | 16.0 | 71.0 | 0.3 | 2016 |
| Upper Lillooet, BC ³ | 74.0 | 260.0 | 4.3 | 2016 |
| Big Silver-Shovel Creek, BC | 36.9 | 144.9 | N/A ² | 2016 |

1. The Corporation owns 50% of this project.

2. The Cloudworks Acquisition was not completed as at March 31, 2011.

3. The Corporation owns 66 ⅔% of this project.

Kwoiek Creek

In the first quarter of 2011, the EPC contractor continued working under the limited notice to proceed issued in December 2010. During this quarter, activities also focused on engineering, supplier selection for the turbines and contractor selection for the transmission line. Construction of this facility is expected to be completed in 2013.

Northwest Stave River

Current activities are focused around design iterations, acquisition of remaining permits, geotechnical analysis for the intake design and contractor negotiations. Current on site work continues to focus on access road construction and rehabilitation. The Corporation expects construction to start in the third quarter of 2011 and the facility to commence commercial operation in 2013.

Boulder Creek, North Creek and Upper Lillooet

Current activities are focused on consultation with the various stakeholders; applications for obtaining the relevant permits; geotechnical analysis for the transmission line and tunnel; and preliminary engineering. The Corporation expects Boulder Creek to start commercial operation in 2015 and North Creek and Upper Lillooet to start commercial operation in 2016.

Tretheway Creek and Big Silver-Shovel Creek

Geotechnical analysis, hydrological analysis and the related preliminary engineering are complete. Current activities are focused on finalizing Provincial and Federal permitting requirements which include: environmental, cultural and economic impact assessments, First Nations consultation and public engagement. The Corporation expects Tretheway Creek to start commercial operation in 2015 and Big Silver-Shovel Creek to start commercial operation in 2016.

Prospective Projects

All of the Prospective Projects, with a combined potential net installed capacity of more than 2,800 MW (gross 3,000 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 FIT programs yet to be announced. There is no certainty that any Prospective Project will be realized.

On January 25, 2011, BC Hydro released its revised SOP. Among other things, BC Hydro has raised the upper limit on project size (from 9.9 MW to 15.0 MW) and the electricity rates applicable to each region. Innergex is currently evaluating the impact of this announcement, as some of its Prospective Projects could be eligible under the program.

On March 17, 2011, Hydro-Québec, the Rivière-du-Loup MRC and the Corporation executed a PPA for the Viger-Denonville Community Wind Farm Project. The PPA has been submitted to the Régie de l'énergie for approval. Once approved, the PPA will allow the Corporation to enter the development phase for this project. The Corporation expects the 24.6 MW wind farm to start commercial operation on December 1, 2013.

During the first quarter of 2011, the Corporation submitted three applications of 10.0 MW each under the FIT Program for solar photovoltaic projects in Ontario. Since the end of the first quarter of 2011, Innergex has submitted another application under the FIT Program for solar photovoltaic projects in Ontario for a 10.0 MW project. This last application brings Innergex's total number of applications under the FIT Program for solar photovoltaic projects to six, with a total capacity of 59.0 MW.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Cloudworks Acquisition allowed the Corporation to increase its portfolio of run-of-river hydroelectric Prospective Projects by over 800 MW (net and gross).

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, 2010, and in the Prospectus, 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-month period ended March 31, 2011, are compared with the operating results for the same period in 2010. As a result of the Combination, only the last two days of operation of the Pre-Combination Innergex have been accounted for in the Corporation's results for the first quarter of 2010.

Nevertheless, for the reader's benefit, the following production results have been adjusted to include the electricity production of Glen Miller, Umbata Falls, Ashlu Creek, Fitzsimmons Creek and Carleton for a full quarter. The Corporation's other results are presented as per IFRS.

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, the Corporation and independent engineers carry out studies that take into consideration a number of important factors: for hydroelectricity, the historically observed flows of the river, the operating head and the reserved aesthetic and ecological flows; and for wind energy, the wind conditions. Also taken into account are factors such as site topography, installed capacity, energy losses, operational features and maintenance. Although production will fluctuate from year to year, over an extended period it should approach the forecast long-term average.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

| Production | Operating period January 1 to March 31, 2011 | | Operating period January 1 to March 31, 2010 | |
|--------------------------------|---|-------------------------------|---|-------------------------------|
| | Production (MWh) | Long-term average (MWh) | Production (MWh) | Long-term average (MWh) |
| <i>HYDRO</i> | | | | |
| Saint-Paulin | 9,302 | 7,434 | 10,464 | 7,434 |
| Windsor | 10,714 | 9,730 | 11,016 | 9,730 |
| Chaudière | 29,818 | 25,999 | 30,173 | 25,999 |
| Portneuf-1 | 4,458 | 4,290 | 4,462 | 4,290 |
| Portneuf-2 | 9,710 | 10,033 | 10,443 | 10,033 |
| Portneuf-3 | 4,544 | 4,398 | 4,577 | 4,398 |
| Montmagny | 1,219 | 1,433 | 1,805 | 1,433 |
| Glen Miller ¹ | 13,186 | 13,500 | 13,459 | 13,500 |
| Umbata Falls ^{1,2} | 7,832 | 8,901 | 8,633 | 8,901 |
| Batawa | 11,546 | 10,803 | 11,500 | 10,803 |
| Rutherford Creek | 3,699 | 11,000 | 9,194 | 11,000 |
| Ashlu Creek ¹ | 24,735 | 26,898 | 25,776 | 26,898 |
| Fitzsimmons Creek ⁴ | 32 | 3,343 | 102 | 944 |
| Horseshoe Bend | 6,333 | 7,927 | 3,718 | 7,927 |
| Subtotal | 137,128 | 145,689 | 145,322 | 143,290 |
| <i>WIND</i> | | | | |
| Baie-des-Sables ³ | 33,439 | 35,697 | 29,736 | 35,697 |
| L'Anse-à-Valleau ³ | 33,337 | 38,185 | 29,331 | 38,185 |
| Carleton ^{1,3} | 36,276 | 38,085 | 35,891 | 38,085 |
| Subtotal | 103,052 | 111,967 | 94,958 | 111,967 |
| Total | 240,180 | 257,656 | 240,280 | 255,257 |

1. Adjusted to include the full first quarter of 2010

2. Corresponding to the Corporation's 49% interest in this facility.

3. Corresponding to the Corporation's 38% interest in this wind farm.

4. The 2010 long-term average was adjusted for the period during which the facility was in commercial operation as commissioning occurred on January 26, 2010. Operations were interrupted for the entire month of February due to the Olympic Games.

For the first quarter of 2011, the Corporation's facilities produced 240,180 MWh, 7% less than the long-term average of 257,656 MWh. This production level is due mainly to:

- hydrologic conditions lower than the long-term average in British Columbia and in Idaho, affecting the production of the Rutherford Creek, Ashlu Creek, Fitzsimmons Creek and Horseshoe Bend facilities; and
- wind conditions lower than the long-term average at the Baie-des-Sables, L'Anse-à-Valleau and Carleton wind farms.

These conditions were partially offset by favourable hydrologic conditions in Quebec, which benefited the St-Paulin, Windsor and Chaudière facilities.

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 months ended March 31, 2011, demonstrates the benefits of geographic diversification and the complementarity of hydroelectric and wind power generation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

| Operating Results | Three-month period ended | Three-month period ended |
|--|--------------------------|--------------------------|
| | March 31, 2011 | March 31, 2010 |
| | \$ | \$ |
| Operating revenues | 20,816 | 13,998 |
| Operating expenses | 3,787 | 2,289 |
| Share-based compensation | 130 | 1 |
| General and administrative expenses | 1,868 | 969 |
| Prospective projects expenses | 307 | 10 |
| EBITDA | 14,724 | 10,729 |
| Finance costs | 6,728 | 3,907 |
| Transaction costs | 1,111 | 5,330 |
| Other net revenues | (162) | (61) |
| Depreciation and amortization | 9,265 | 5,541 |
| Unrealized net (gain) loss on derivative financial instruments | (9,534) | 2,040 |
| Unrealized loss on unitholders' capital | - | 51,761 |
| Expense related to royalty agreement | - | 983 |
| Unrealized net gain on foreign exchange | (41) | (45) |
| Provision for income taxes (recovery) | 1,627 | (1,052) |
| Distributions declared to unitholders | - | 7,238 |
| Net earnings (loss) | 5,730 | (64,913) |
| Owners of the parent | 5,975 | (64,907) |
| Non-controlling interests | (245) | (6) |
| | 5,730 | (64,913) |

Revenues

In the first quarter of 2011, the Corporation recorded operating revenues of \$20.8 million (\$14.0 million in 2010). This increase is due to additional revenues resulting from the Combination (\$6.5 million) and higher revenues from the pre-combination assets of the Fund (positive impact of \$0.3 million).

As stipulated in the BDS, AAV and CAR PPAs, Hydro-Québec Distribution ("HQD") is entitled to 75% of the payments received by the three wind farms under the ecoENERGY Initiative. Under IFRS, gross payments must be included in the operating revenues; a corresponding adjustment for the 75% transfer to HQD has thus been included in operating expenses whereas, under Canadian GAAP, the transfer was netted in operating revenues.

Expenses

Operating expenses consist primarily of the operators' salaries, water rights, royalties, insurance premiums, property taxes, maintenance and repairs. As explained earlier in this MD&A, with the adoption of IFRS, operating expenses now also include HQD's share of the payments received under the ecoENERGY Initiative.

In the first quarter of 2011, the Corporation recorded \$3.8 million in operating expenses related to the operation of the power-producing facilities (\$2.3 million in 2010). This increase was expected and is mainly due to the Combination (\$1.3 million), which resulted in the Corporation operating a greater number of facilities in 2011 than in 2010.

Share-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 options also granted in June 2010. Non-cash share-based compensation was \$0.1 million in the first quarter of 2011 (not material in 2010). Prior to the Combination, such expenses were not incurred by the Fund.

General and administrative expenses totalled \$1.9 million for the three-month period ended March 31, 2011 (\$1.0 million in 2010). This increase is due to the Corporation's larger size as a result of 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 \$0.3 million for the three-month period ended March 31, 2011 (not material in 2010).

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Finance Costs

For the first quarter of 2011, finance costs rose to \$6.7 million (\$3.9 million in 2010). This difference is due to the issuance of Convertible Debentures and to the increase in long-term debt resulting from the Combination.

As at March 31, 2011, the Corporation's entire actual debt, including Convertible Debentures and part of its future planned drawings, was fixed or hedged against interest rate movements (99% as at March 31, 2010). As such, the effective all-in interest rate on the Corporation's debt and Convertible Debentures was 6.05% as at that date (5.36% as at March 31, 2010). The increase stems primarily from the swap related to the Ashlu long-term debt that took effect on September 30, 2010. Please see the "Derivative Financial Instruments and Risk Management" section for more information.

Transaction Costs

Transaction costs include the costs incurred for the Combination and for acquisitions. Under IFRS 3, these costs must be expensed in the period they are incurred whereas, under section 1581 of CICA handbook, they were capitalized. For the three-month period ended March 31, 2011, transaction costs totalled \$1.1 million as a result of the Cloudworks Acquisition and the acquisition of the Stardale Project. For the corresponding period of 2010, the transaction costs of \$5.3 million related to the Combination were recognized as incurred.

Depreciation and Amortization

For the three-month period ended March 31, 2011, depreciation and amortization expenses totalled \$9.3 million (\$5.5 million in 2010). The difference is mainly attributable to the greater asset base resulting from the Combination.

The calculation of depreciation has been impacted by the transition to IFRS. International Accounting Standard ("IAS") 16 explicitly requires that significant components of an asset be depreciated separately based on their estimated useful lives.

The amortization expense is changed as well. Under IAS 36, all the assets must be subject to an impairment test as of January 1, 2010. The Corporation performed the impairment test and accordingly the carrying amounts of intangible assets were impaired. This impairment resulted in a lower amortization and had no impact on the Corporation's cash position.

Derivative Financial Instruments

The Corporation uses derivative financial instruments 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.

In the first quarter of 2011, the Corporation recorded a \$9.5 million unrealized net gain on derivative financial instruments (unrealized net loss of \$2.0 million in 2010) due mainly to the increase in benchmark interest rates for long-term maturities since the end of 2010. This gain had no cash impact on the Corporation's results.

Unrealized Loss on Unitholders' Capital

The transition to IFRS created this new line item for the first quarter of 2010 as a result of the Combination. Under IAS 32, the unitholders' capital of the Fund is reclassified as a long-term liability with variations in fair value recognized in the statement of income. Between January 1, 2010, and March 29, 2010, the fair value of the unitholders' capital increased by \$51.8 million. This variation was reflected as an unrealized loss on unitholders' capital. At the Combination date, the unitholders' capital was reclassified to share capital in equity.

Expense Related to Royalty Agreement

For the three-month period ended March 31, 2010, the Corporation recorded a \$1.0 million non-recurrent expense due to the deemed cancellation of a contract resulting from the Combination. As per IFRS, the Fund had to expense the engagement it had with Innergex prior to the Combination. In 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 PPA 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.

Provision for Income Taxes

For the three-month period ended March 31, 2011, Innergex recorded current income taxes recovery of \$1.1 million (\$0.1 million in 2010) and provision for deferred income taxes of \$2.7 million (deferred income taxes recovery of \$0.9 million in 2010). Prior to the Combination, the Fund's income trust structure minimized income tax. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Distributions Declared to Unitholders

Due to the transition to IFRS, the unitholders' capital has been reclassified as a long-term liability. Accordingly, the distributions declared to unitholders during the first quarter of 2010 are included in the calculation of net earnings instead of being accounted as distributions.

Net Earnings

For the three-month period ended March 31, 2011, the Corporation recorded net earnings of \$5.7 million (basic and diluted net earnings of \$0.08 per share). For the corresponding period of 2010, Innergex recorded a net loss of \$64.9 million (basic and diluted net loss of \$1.33 per share). This difference is attributable mainly to:

- \$4.0 million increase in EBITDA;
- \$4.2 million decrease in transaction costs;
- \$11.6 million positive variation in the fair market value of derivative financial instruments;
- \$51.8 million non-recurrent expense recorded in the first quarter of 2010 related to the fair market value of the unitholders' capital; and
- \$7.2 million favourable difference in distributions declared to shareholders.

These were partly offset by:

- \$2.8 million increase in finance costs;
- \$3.7 million increase in depreciation and amortization; and
- \$2.7 million unfavourable difference in provision for income taxes.

The basic and diluted per-share figures for the period ended March 31, 2011, are respectively based on a weighted average number of 59,532,606 and 59,704,319 common shares outstanding. As per IFRS, 1,034,000 stock options were non-dilutive during the period concerned, as the average market price of the Corporation's common share was below the strike price. The other 808,024 stock options were dilutive, as the average market price of the Corporation's common share was above the strike price. Convertible Debentures were also non-dilutive. A number of 7,558,684 common shares could potentially be issued upon conversion of the Convertible Debentures. For the period ended December 31, 2010, per-share figures were based on a weighted average number of 55,529,845 common shares outstanding. All stock options were non-dilutive during this period. For 1,034,000 stock options, the average market price of the Corporation's common share was below the strike price. For the other 808,024 stock options, their inclusion would have resulted in a lower loss per common share amount. Convertible Debentures were also non-dilutive.

As at March 31, 2011, the Corporation had a total of 59,532,606 common shares, 80,500 Convertible Debentures, 3,400,000 Series A Preferred Shares, 17,750,000 subscription receipts and 1,842,024 stock options outstanding. As at December 31, 2010, it had 59,532,606 common shares, 80,500 Convertible Debentures, 3,400,000 Series A Preferred Shares and 1,842,024 stock options outstanding.

Non-controlling Interests

For the three-month period ended March 31, 2011, the Corporation allocated \$0.2 million to non-controlling interests (not material in 2010). These non-controlling interests are related to the Fitzsimmons Creek Operating Facility and the Kwoiek Creek Development Project.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

For the period ended March 31, 2011, cash flows generated by operating activities totalled \$12.6 million (used \$8.2 million in 2010). This difference is due primarily to the \$4.0 million increase in EBITDA, the \$4.2 million decrease in transaction costs, the \$4.2 million increase in the variation of non-cash working capital items and the non-recurrent \$9.7 million distributions paid to unitholders in 2010, partly offset by a \$2.3 million increase in interest paid. The variation in non-cash working capital items stems mainly from the positive impact of a greater decrease in accounts receivable (\$2.4 million) and an increase in accounts payable and accrued liabilities, compared with a decrease in the same period of 2010 (\$1.9 million). At the time of the Combination, the Pre-Combination Innergex had \$88.4 million in cash and cash equivalents that it used partly to pay down accounts payable and accrued liabilities owed by the Pre-Combination Innergex entities.

Cash Flows from Financing Activities

In the first quarter of 2011, cash flows used by financing activities totalled \$10.7 million (\$60.4 million in 2010). This corresponds to a total of \$10.1 million in dividends paid to preferred and common shareholders (nil in 2010) and \$0.6 million in net long-term debt repayments (net long-term debt and bank loan repayments of \$58.8 million in 2010).

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Cash Flows from Investing Activities

For the quarter ended March 31, 2011, cash flows used by investing activities amounted to \$10.4 million (inflows of \$89.1 million in 2010). During the first quarter of 2011, additions to property, plant and equipment accounted for a \$6.0 million outflow (\$0.2 million in 2010), additions to project development costs for a \$2.2 million outflow (nil in 2010), additions to intangible assets and other long-term assets for a combined \$3.8 million outflow (nil in 2010) and net withdrawals from the reserves for a \$1.6 million inflow (\$0.9 million in 2010). For the corresponding period of 2010, cash acquired concurrently with the Combination accounted for an \$88.4 million inflow.

Cash and Cash Equivalents

In the first quarter of 2011, the Corporation used \$8.5 million in cash and cash equivalents (generation of \$20.4 million in 2010) as a net result of its operating, financing and investing activities.

As at March 31, 2011, the Corporation had cash and cash equivalents amounting to \$33.6 million (\$42.1 million as at December 31, 2010).

Dividends to Preferred Shareholders

On June 7, 2011, the Corporation declared a dividend of \$0.3125 per Series A Preferred Share payable on July 15, 2011, to preferred shareholders of record at the close of business on June 30, 2011.

Dividends to Common Shareholders

On June 7, 2011, the Corporation declared a dividend of \$0.1450 per common share payable on July 15, 2011, to common shareholders of record at the close of business on June 30, 2011.

USE OF FINANCING PROCEEDS

| Use of Financing Proceeds | For the three-month | For the three-month |
|--|--------------------------------|--------------------------------|
| | period ended March 31, 2011 | period ended March 31, 2010 |
| | \$ | \$ |
| Proceeds from issuance of long-term debt | 13,000 | 73,920 |
| Financing proceeds | 13,000 | 73,920 |
| Net cash acquired on business acquisition: | | |
| Pre-Combination Innergex | - | 88,394 |
| Additions to property, plant and equipment | (6,013) | (196) |
| Additions to intangible assets | (25) | - |
| Additions to project developments costs | (2,150) | - |
| Additions to other long-term assets | (3,746) | - |
| Refinancing of long-term debt | - | (119,806) |
| Payment of deferred financing costs | (51) | (1,615) |
| Cancellation of revolving credit facility | - | (12,900) |
| Long-term debt repayment | (13,614) | - |
| Use of financing proceeds | (25,600) | (46,123) |
| Contribution to (reduction of) working capital | (12,600) | 27,797 |

In the first quarter of 2011, the Corporation used its existing cash flow mainly for additions to property, plant and equipment and additions to project development costs and to other long-term assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL POSITION

Assets

As at March 31, 2011, the Corporation had \$936.5 million in total assets (\$947.1 million as at December 31, 2010). This decrease is accounted for mainly by the following:

- accounts receivable decreased from \$14.7 million to \$11.9 million, as explained in the "Working Capital" section;
- property, plant and equipment decreased from \$612.3 million to \$608.4 million due to depreciation and amortization; and,
- intangible assets decreased from \$210.8 million to \$207.1 million due to depreciation and amortization.

These were partly offset by:

- project development costs increased from \$5.9 million to \$8.4 million due to Development Projects under permit phase;
- deferred tax assets increased from \$13.2 million to \$15.1 million, due to temporary differences ; and,
- other long-term assets increased from \$0.3 million to \$4.0 million, due to prepaid issuance fees of common shares related to the Cloudworks Acquisition.

Working Capital

As at the end of the first quarter of 2011, working capital was positive at \$4.0 million with a working capital ratio of 1.08:1.00. As at the end of 2010, working capital was positive at \$14.0 million with a working capital ratio of 1.28:1. The decrease in the working capital ratio over the last quarter stems mainly from a decrease in cash and cash equivalents due mainly to additions to property, plant and equipment, other long-term assets and project development costs.

In view of these ratios, the Corporation considers its current level of working capital to be sufficient to meet its needs. The Corporation can also use its \$170.0 million revolving credit facility comprised of a \$117.4 million revolving credit facility (the "Operating Credit Facility") and a \$52.6 million revolving credit facility (the "BDS Credit Facility"). As at March 31, 2011, US\$13.9 million and \$29.4 million of these credit facilities had been drawn as cash advances and \$26.2 million had been used for issuing letters of credit. The combined unused and available portion of the Operating Credit Facility and BDS Credit Facility was therefore \$100.9 million as at that date.

Accounts receivable decreased from \$14.7 million as at December 31, 2010, to \$11.9 million as at March 31, 2011, as a result of lower revenues in the first quarter of 2011 compared with the last quarter of 2010 due to seasonal variations. Accounts receivable are comprised mainly of receivables from public utilities for the sale of electricity.

Accounts payable and accrued liabilities decreased from \$21.7 million as at December 31, 2010, to \$20.3 million as at March 31, 2011. They are comprised mainly of trade payables related, among other things, to the Montagne-Sèche, Gros-Morne and Kwoiek Creek projects.

Derivative financial instruments included in current liabilities increased from \$8.5 million as at December 31, 2010, to \$9.1 million as at March 31, 2011.

The current portion of long-term debt totalling \$9.4 million relates to the L'Anse-à-Valleau, Hydro-Windsor, Glen Miller, Umbata Falls, Carleton, Ashlu Creek and Fitzsimmons Creek credit facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Reserve Accounts

| Reserve Accounts Breakdown | March 31, 2011 | December 31, 2010 |
|------------------------------|----------------|-------------------|
| | \$ | \$ |
| Hydrology/wind power reserve | 15,483 | 16,511 |
| Major maintenance reserve | 4,323 | 4,436 |
| Levelization reserve | - | 494 |
| Total | 19,806 | 21,441 |

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

- 1) The Hydrology/wind power reserve, which is 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 and other unpredictable events. The amounts in this reserve are expected to vary from quarter to quarter according to the seasonality of cash flows. The decrease in this reserve since December 31, 2010, results mainly from a withdrawal of \$1.0 million from the Carleton reserve account due to the reduction of the required reserve amount in the first quarter of 2011.
- 2) The Major maintenance reserve, which has been established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity. The minor decrease in this reserve since December 31, 2010, is due to the drawdown in the Rutherford Creek major maintenance reserve account for planned repairs (\$0.1 million).
- 3) The Levelization reserve, which was established to level the monetary contribution from the Funds' power plants in order to pay distributions to unitholders. As planned, this reserve was extinguished in the first quarter of 2011.

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 less accumulated depreciation and accumulated impairment losses. They are depreciated using the straight-line method over the lesser of (i) the period for which the Corporation owns the rights to the assets or (ii) a period of 15 to 75 years for hydroelectric facilities or of 15 to 25 years for wind farm facilities. As required under IFRS, the Corporation adjusted the accumulated depreciation of property, plant and equipment to reflect the depreciation of significant components based on their respective estimated useful lives. The Corporation had \$608.4 million in property, plant and equipment as at March 31, 2011, compared with \$612.3 million as at December 31, 2010. This decrease stems from the depreciation and amortization and is partly offset by the construction of the Montagne-Sèche and Gros-Morne wind farm projects.

Intangible Assets

Intangible assets consist of various PPAs, permits and licences. They also include the extended warranty for the BDS, AAV and CAR wind farm turbines. The Corporation reported \$207.1 million in intangible assets as at March 31, 2011, a decrease from the \$210.8 million reported as at December 31, 2010; this decrease results from depreciation and amortization. Intangible assets, excluding \$3.1 million related to the wind farms' extended warranty, are amortized using the straight-line method over 11- to 40-year periods that commence when the related project is commissioned or acquired. 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 to acquire and develop Development Projects that have a PPA and 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 March 31, 2011, the Corporation had \$8.4 million in project development costs (\$5.9 million as at December 31, 2010).

Goodwill

The Corporation had \$8.3 million in goodwill as at March 31, 2011 (idem as at December 31, 2010). Goodwill is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. No impairment was recognized for the first quarter of 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Long-Term Debt

As at March 31, 2011, long-term debt was \$357.8 million (\$358.7 million as at December 31, 2010). The decrease in long-term debt results from scheduled repayments of long-term debt (\$2.6 million), partly offset by net drawings under the BDS Credit facility.

| Long-Term Debt | March 31, 2011 | December 31, 2010 |
|--|----------------|-------------------|
| | \$ | \$ |
| Operating Credit Facility (i) | | |
| LIBOR advances, US\$13,900 renewable until March 2013 | 13,477 | 13,825 |
| BDS Credit Facility (ii) | | |
| Bankers' acceptances renewable until March 2013 | 29,400 | 27,400 |
| Term loans | | |
| Glen Miller, floating-rate term loan maturing in 2013 (iii) | 14,250 | 14,500 |
| CAR, floating-rate term loan maturing in 2013 (iv) | 47,986 | 49,083 |
| Umbata Falls, floating-rate term loan maturing in 2014 (v) | 24,235 | 24,348 |
| Fitzsimmons Creek, floating-rate construction loan (vi) | 22,528 | 22,551 |
| Hydro-Windsor, fixed rate term loan maturing in 2016 (vii) | 5,644 | 5,841 |
| Rutherford Creek, fixed rate term loan maturing in 2024 (viii) | 50,000 | 50,000 |
| Ashlu Creek, floating-rate term loan maturing in 2025 (ix) | 103,983 | 104,406 |
| AAV, floating-rate term loan maturing in 2026 (x) | 47,357 | 47,891 |
| Kwoiek Creek, fixed rate subordinated term loan (xi) | 150 | 150 |
| Deferred financing costs | (1,201) | (1,305) |
| | 357,810 | 358,690 |
| Current portion of long-term debt | (9,384) | (9,259) |
| | 348,426 | 349,431 |

The Corporation had the following long-term debts outstanding as at March 31, 2011:

- 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, U.S. 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 March 31, 2011, \$13.5 million was due under this facility and an amount of \$26.2 million was used for the issuance of letters of credit; thus the unused and available portion of the Operating Credit Facility totalled \$77.7 million. As at March 31, 2011, the all-in interest rate was 2.81% on \$13.5 million of LIBOR advances;
- ii) a \$52.6 million revolving credit facility guaranteed by the Corporation's 38% interest in the BDS wind farm and a security interest granted by Innergex. The facility will mature in 2013 and is not amortized. Advances are made in the form of BA, prime-rate advances, U.S. base-rate advances or LIBOR 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 March 31, 2011, \$29.4 million was due under this facility; thus the unused and available portion of the BDS Credit Facility totalled \$23.2 million. As at March 31, 2011, the all-in interest rate was 6.77% after accounting for the interest rate swap;
- iii) as part of the Combination, the Corporation assumed a \$15.3 million non-recourse term loan maturing in 2013. It is secured by the Glen Miller hydroelectric facility. This loan is amortized at the rate of \$250 per quarter. The loan bears interest at the BA rate plus an applicable credit margin. As at March 31, 2011, the all-in interest rate was 5.68% after accounting for the interest rate swaps;
- iv) as part of the Combination, the Corporation assumed a \$50.9 million non-recourse term loan maturing in 2013. It is secured by the Corporation's 38% interest in the Carleton wind farm. This loan was accounted for at its fair market value of \$51.7 million as at March 29, 2010. The loan's quarterly principal payments are based on an 18.5-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at March 31, 2011, the all-in interest rate was 4.82% after accounting for the interest rate swap;

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

- v) 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 Umbata Falls hydroelectric facility. The loan's quarterly 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 March 31, 2011, the all-in interest rate was 5.31% after accounting for the interest rate swap;
- vi) 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 monthly principal payments will begin upon 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 March 31, 2011, the all-in interest rate was 7.84% after accounting for the interest rate swaps;
- vii) as part of the acquisition of the Hydro-Windsor hydroelectric facility in 2004, the Corporation assumed an \$8.3 million non-recourse term loan maturing in 2016. It is secured by the Hydro-Windsor hydroelectric facility. This debt was accounted for at its fair market value of \$9.9 million as at April 27, 2004. The loan is repayable by monthly blended payments of principal and interest totalling \$105. The loan bears interest at an effective fixed interest rate of 8.25%;
- viii) as part of the acquisition of the Rutherford Creek hydroelectric facility in 2005, the Corporation assumed a \$50.0 million non-recourse term loan maturing in 2024. It is secured by the Rutherford Creek hydroelectric facility. This debt will be repayable in monthly blended payments of principal and interest totalling \$511 starting on July 1, 2012. Until such date, monthly interest-only payments of \$286 are made. The loan bears interest at a fixed rate of 6.88%;
- 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. In July 2010, the Corporation made a final draw, bringing the total drawn amount to a fair market value of \$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 quarterly principal payments are based on a 25-year amortization period. The loan bears interest at the BA rate or prime-rate plus an applicable credit margin. As at March 31, 2011, the all-in interest rate was 6.23%;
- x) as part of the acquisition of a 38% interest in the AAV wind farm in 2007, the Corporation assumed a \$54.5 million non-recourse term loan maturing in 2026. It is secured by the Corporation's 38% interest in the L'Anse-à-Valleau wind farm. The loan's quarterly principal payments are based on an 18.5-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at March 31, 2011, the all-in interest rate was 5.93% after accounting for the interest rate swap;
- 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 \$12.2 million as at March 31, 2011.

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 2011 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. As at March 31, 2011, the debt portion of the Convertible Debentures stood at \$79.4 million and the equity portion at \$1.3 million (\$79.3 million and \$1.3 million respectively as at December 31, 2010).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Preferred Shares

On September 14, 2010, the Corporation issued a total of 3,400,000 Series A Preferred Shares at \$25 per share for aggregate gross proceeds of \$85.0 million. For the initial five-year period up to but excluding January 15, 2016 (the "Initial Fixed Rate Period"), the holders of Series A Preferred Shares are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Corporation's board of directors (the "Board of Directors"). The dividends are payable quarterly on the 15th day of January, April, July and October of each year at an annual rate equal to \$1.25 per share. The initial dividend of \$0.42123 per share was paid on January 17, 2011. A dividend of \$0.3125 per share was paid on April 15, 2011.

The Series A Preferred Shares are rated P-3 by S&P and Pfd-3 (low) by DBRS.

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. Since these Derivatives are entered into with major financial institutions rated A or better by S&P, 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 \$409.6 million in actual and planned long-term debt. This figure combined with the \$55.8 million in existing fixed-rate debts and the \$79.4 million in Convertible Debentures means that all of the Corporation's actual debt and part of its planned indebtedness are protected from interest rates increases.

| Swap Contract Notional Amounts | Early termination option | March 31, 2011 | December 31, 2010 |
|---|--------------------------|----------------|-------------------|
| | | \$ | \$ |
| 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 | 47,356 | 47,890 |
| Interest rate swap, 3.45%, amortized until March 2027 | December 2013 | 47,237 | 48,315 |
| Forward interest rate swaps, 4.31%, amortized until June 2030 | June 2016 | 31,690 | 31,690 |
| Forward interest rate swaps, 4.33%, amortized until June 2031 | August 2011 | 49,940 | 49,940 |
| Interest rate swap, 4.11%, amortized until June 2034 | None | 24,235 | 24,348 |
| Interest rate swaps, 4.70%, amortized until June 2035 | June 2025 | 108,590 | 109,067 |
| | | 409,649 | 411,850 |

Derivatives had a net negative value of \$10.4 million at the end of the first quarter of 2011 (negative \$19.9 million at the end of 2010). This difference is due to an increase in benchmark interest rates for long-term maturities since the end of 2010.

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.

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

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. The Corporation does not use hedge accounting for its Derivatives.

As at March 31, 2011, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at \$10.6 million (\$10.9 million as at December 31, 2010). These instruments represent the value attributed to minimum inflation clauses of 3% per year included in these PPA contracts.

Deferred Income Taxes

The tax impact of temporary differences may result in future tax assets or liabilities. As at March 31, 2011, the Corporation's net deferred tax liability was \$71.9 million, compared with a net deferred tax liability of \$69.5 million as at December 31, 2010. This difference resulted mainly from the first quarter of 2011's earnings.

Off-Balance-Sheet Arrangements

As at March 31, 2011, the Corporation had issued letters of credit totalling \$29.7 million to meet its obligations under its various PPAs and other agreements. Of this amount, \$26.2 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 a total of \$18.2 million in corporate guarantees to support the construction of the Montagne-Sèche and Gros-Morne wind farms.

Shareholders' Equity

As at March 31, 2011, the shareholders' equity of the Corporation totalled \$355.0 million, compared with \$358.9 million as at December 31, 2010.

As at June 7, 2011, the Corporation has a total of 81,282,460 common shares, 80,500 Convertible Debentures, 3,400,000 Series A Preferred Shares and 1,842,024 stock options outstanding.

Contractual Obligations

There were no material changes during the first quarter of 2011.

ADJUSTED CASH FLOWS FROM OPERATING ACTIVITIES

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 effect of Transaction costs is also eliminated as they are financed by other sources of capital than cash flows from operating activities. The Corporation also adds or deducts amounts that are withdrawn from or invested in the Hydrology/wind power reserve, the Major maintenance reserve and the Levelization 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 | Three-month period |
|---|----------------------|----------------------|
| | ended March 31, 2011 | ended March 31, 2010 |
| | \$ | \$ |
| Cash flow from operating activities | 12,606 | (8,246) |
| Change in non-cash working capital items | (4,449) | (265) |
| Transaction costs | 1,111 | 5,330 |
| Distributions paid to unitholders | - | 9,688 |
| Net withdrawals from the reserve accounts | 1,574 | 946 |
| Adjusted cash flows from operating activities | 10,842 | 7,453 |

For the quarter ended March 31, 2011, Innergex generated \$10.8 million in adjusted cash flows from operating activities (\$7.5 million in 2010). This improvement is due mainly to a \$4.0 million increase in EBITDA and a \$0.6 million increase in net withdrawals from the reserve, partly offset by a \$2.3 million increase in interest paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DIVIDENDS

| Dividends | Three-month period | Three-month period |
|--|----------------------|----------------------|
| | ended March 31, 2011 | ended March 31, 2010 |
| | \$ | \$ |
| Dividends declared on Series A Preferred Shares | 1,063 | - |
| Dividends declared on common shares | 8,632 | 7,238 |
| Weighted average number of common shares outstanding – basic | 59,533 | 43,299 |
| Dividends declared on common shares (\$ per share) | 0.145 | 0.169 |

During 2011, the Corporation declared dividends of \$1.1 million on its Series A Preferred Shares (nil in 2010) and \$8.6 million on its common shares or \$0.145 per common share (\$7.2 million or \$0.169 per common share in 2010).

SEGMENT INFORMATION

Geographic Segments

As at March 31, 2011, the Corporation had 13 hydroelectric facilities and three wind farms in Canada and one hydroelectric facility in the United States. For the first quarter ended March 31, 2011, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$0.4 million (\$0.2 million in 2010), representing contributions of 1.7% (1.6% in 2010) 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, wind farm and solar photovoltaic 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 Corporation's unaudited condensed consolidated financial statements for the three-month period ended March 31, 2011. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(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 March 31, 2011 | | | | |
| Power generated (MWh) | 137,128 | 103,052 | - | 240,180 |
| Operating revenues from external clients | 11,828 | 8,988 | - | 20,816 |
| Expenses: | | | | |
| Operating expenses | 2,381 | 1,406 | - | 3,787 |
| Share-based compensation | 50 | 30 | 50 | 130 |
| General and administrative expenses | 796 | 504 | 568 | 1,868 |
| Prospective projects expenses | - | - | 307 | 307 |
| Earnings before interest, income taxes, depreciation and amortization and other items | 8,601 | 7,048 | (925) | 14,724 |
| As at March 31, 2011 | | | | |
| Goodwill | 8,269 | - | - | 8,269 |
| Total assets | 590,691 | 258,295 | 87,496 | 936,482 |
| Acquisition of property, plant and equipment since the beginning of the year | 57 | 72 | 1,514 | 1,643 |
| Three-month period ended March 31, 2010 | | | | |
| Power generated (MWh) | 97,914 | 59,752 | - | 157,666 |
| Operating revenues from external clients | 8,845 | 5,153 | - | 13,998 |
| Expenses: | | | | |
| Operating expenses | 1,376 | 913 | - | 2,289 |
| Share-based compensation | - | - | 1 | 1 |
| General and administrative expenses | 608 | 227 | 134 | 969 |
| Prospective projects expenses | - | - | 10 | 10 |
| Earnings before interest, income taxes, depreciation and amortization and other items | 6,861 | 4,013 | (145) | 10,729 |
| As at December 31, 2010 | | | | |
| Goodwill | 8,269 | - | - | 8,269 |
| Total assets | 600,007 | 264,449 | 82,684 | 947,140 |
| Acquisition of property, plant and equipment during the year | 1,304 | 318 | 37,224 | 38,846 |

Hydroelectric Generation Segment

In the first quarter of 2011, the hydroelectric generation segment produced 5% less power than the long-term average due to lower-than-anticipated hydrologic conditions at the segment's facilities located in British Columbia, resulting in operating revenues of \$11.8 million. In the corresponding quarter of 2010, production exceeded the long-term average by 4% due to favourable hydrologic conditions for most of the Corporation's hydroelectric facilities. The contribution from the assets of the Pre-Combination Innergex is included for the last two days of March 2010 resulting in operating revenues of \$8.8 million.

The decrease in total assets since December 31, 2010, is attributable to depreciation and amortization of property, plant and equipment as well as intangible assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Wind Power Generation Segment

The wind power generation segment produced 8% less power than expected in 2011, resulting in operating revenues of \$9.0 million. This performance is due mainly to lower-than-anticipated wind conditions at the three wind farms. For the corresponding period in 2010, production was 20% below expectations. This was the result of weather conditions below long-term averages 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.

As a result of the Combination, the contribution of the Carleton wind farm has been included in the results since March 30, 2010. This different number of days for CAR and the higher production at BDS and AAV explain the increases in operating revenues and EBITDA of \$3.8 million and \$3.0 million respectively from 2010 to 2011.

Total assets have decreased since December 31, 2010, as a result of depreciation and amortization of property, plant and equipment.

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 decrease in total assets since December 31, 2010 results from use of cash to pay payables, partly offset by the ongoing development of the Corporation's Development Projects.

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, amounts were paid only during the first quarter of 2010. During that quarter, the Fund paid \$0.6 million for services provided 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 purchase price amounted to \$195.2 million and was accounted for under IFRS 3. 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 purchase price allocation is presented in Note 6 of the Corporation's unaudited condensed consolidated financial statements for the first quarter of 2011.

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 conformity with IFRS requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. During the reporting period, management made a number of estimates and assumptions pertaining primarily to the fair value calculation of the assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives and recoverability of property, plant and equipment and intangible assets, deferred income taxes as well as the fair value of financial assets and liabilities, including derivatives. These estimates and assumptions are based on current conditions, management's planned course of action and assumptions about future business and economic conditions. Changes in the underlying assumptions and estimates could have a material impact on the reported amounts. These estimates are reviewed periodically. If adjustments prove necessary, they are recognized as earnings in the period in which they are made. Other significant accounting policies are listed in Note 4 of the Corporation's unaudited condensed consolidated financial statements for the first quarter of 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

ACCOUNTING CHANGES

FUTURE CHANGES

Investments in Joint Ventures

IFRS 11 – Investments in Joint Ventures has been under review by the IASB and the new standard IFRS 11 – Joint Arrangements was published on May 12, 2011. The effective implementation date for the revised standard is January 1, 2013. IFRS 11 will require investments 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.

Several investments in associates and joint ventures are consolidated in Innergex under IFRS. These investments are either, fully consolidated or proportionally consolidated. Under the IFRS revised standard, 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 Corporation has not completed its review of the new IFRS 11 standard.

CHANGES MADE IN 2011

IFRS Transition

The unaudited condensed consolidated financial statements for the three-month period ended March 31, 2011 are the first financial statements issued by the Corporation that were prepared under IFRS.

The Corporation had discussions with its lending financial institutions to ensure that adjustments related to IFRS would not have an impact on the methods of calculating financial ratios. As anticipated, there have been no issues with the existing wording of debts covenants and related agreements as a result of the conversion to IFRS.

IFRS

The Canadian Accounting Standards Board had announced the adoption of IFRS for publicly accountable enterprises in Canada. Effective January 1, 2011, companies had to convert from Canadian GAAP to IFRS. Accordingly, the Corporation has applied IFRS standard for the preparation of these quarterly condensed consolidated financial statements.

The Corporation's transition date is January 1, 2010, that being the date of the beginning of the comparative period. The Corporation prepared its Statement of Financial Position as at that date. The closing date of the audited consolidated financial statements will be December 31, 2011. The adoption date of the IFRS by the Corporation is January 1, 2011.

Under IFRS 1, the standards are applied retrospectively as at the date of the transitional statement of financial position with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. In conformity with IFRS 1, when preparing the consolidated financial statements, the Corporation elected to use allowed exemptions to some IFRS standards while considering exceptions to retrospective application for other IFRS standards.

The Corporation applied the following exemptions from other standards:

Business Combination

The Corporation applied the exemption allowed under IFRS 1. Business combinations that occurred before the transition date have not been restated in compliance with IFRS 3. Instead, the classification used under Canadian GAAP has been retained. The assets and liabilities that were acquired or assumed in past business combinations were recognized as at the IFRS transition date since they qualified for recognition under IFRS. The March 29, 2010, share exchange arrangement that occurred after the transition date is not comprised in the exemption's scope.

Deemed Cost of Property, Plant and Equipment and Intangible Assets

As allowed under IFRS 1, the Corporation used the values determined at the Fund's initial public offering on July 4, 2003, as its deemed cost of property, plant and equipment and intangible assets for IFRS.

The Corporation applied the following mandatory exception to the retrospective application of other IFRS:

- **Estimates**

The estimates in accordance with IFRS as at January 1, 2010, are consistent with the ones made for the same date in accordance with Canadian GAAP.

The following section presents the impact on the results of the conversion from Canadian GAAP to IFRS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Revenues

The Corporation is entitled to subsidies under the ecoENERGY Initiative. The subsidies are equal to 1 cent per KWh produced at various facilities. As per the PPAs, the Corporation must transfer 75% of the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms ecoENERGY payments to Hydro-Québec.

Under Canadian GAAP, the Corporation netted ecoENERGY payments under operating revenues.

Under IAS-18, gross ecoENERGY payments are included in the facilities' operating revenues and a corresponding adjustment for the 75% transfer to Hydro-Québec is included in the facilities' operating expenses.

Accretion Expense on Asset Retirement Obligation

Under Canadian GAAP, asset retirement liability was initially recognized at its fair value by discounting the estimated future cash flows with a rate determined at the time the Corporation incurred a legal asset retirement obligation and when a reasonable estimate of the fair value could be made. The unwinding of the discounting was recognized as an accretion expense accounted for as an operating expense.

Under IAS 37, accretion expenses on asset retirement obligations must be adjusted to reflect the obligation by discounting the estimated future cash flows at an appropriate rate determined as at the balance sheet date and must be accounted for as a financial expense.

Share-based Compensation

Under Canadian GAAP, the Corporation recognized its share-based compensation expense on a straight-line basis.

Under IFRS 2, entities are required to treat each vesting instalment as a separate share option grant because each instalment has a different vesting period.

Transaction Costs

Under Canadian GAAP, the Corporation capitalized transaction costs incurred in a business combination.

Under IFRS 3, transaction costs incurred in a business combination must be expensed in the period in which they are incurred.

Depreciation

Under Canadian GAAP, depreciation is based on the estimated useful lives of the assets using the straight-line method.

Under IAS 16, depreciation is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives.

Amortization

Under Canadian GAAP and IFRS, amortization is based on the estimated useful life of the intangible assets.

Under IAS 36, all the assets must be subject to an impairment test as of January 1, 2010. The Corporation performed the impairment test and accordingly the carrying amounts of intangible assets were impaired and this resulted in a lower amortization expense.

Under Canadian GAAP, the measurement date for issued equity is a few days before and after terms are agreed to and announced, and the Corporation recorded the non-controlling interests percentage of net assets acquired at their existing carrying values.

Under IFRS 3, the measurement date for issued equity is the acquisition date, and the non-controlling interests were measured at the non-controlling interests' proportionate share of the net assets acquired at the share exchange arrangement date. For the Corporation, it resulted in a different purchase price allocation, which had an impact on the intangible assets and the related amortization.

Unrealized Loss on Unitholders' Capital

Under Canadian GAAP, the Fund equity was comprised of trust units issued to unitholders.

Under IFRS, the trust units are considered as financial instruments and reclassified as liabilities whose variation in fair value is recognized in the consolidated statement of earnings.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Deferred Income Taxes

Under Canadian GAAP, when a deferred tax asset related to a previous business combination is recognized, the benefit first reduces goodwill and then reduces unamortized intangible assets.

Under IAS 12, the recognition of a deferred tax asset related to a previous acquisition must be accounted for in the statement of earnings.

Adjustments made to the carrying values of Property, plant and equipment, Intangible assets and Asset retirement obligations have an impact on deferred taxes as well.

Distributions declared to unitholders

Under Canadian GAAP, distributions declared to unitholders were accounted for as distributions in the equity.

Under IAS 32, the unitholders' capital is reclassified as a long-term liability and as such, distributions declared to unitholders are included in the net loss.

RISKS AND UNCERTAINTIES

The Corporation is exposed to various business risks and uncertainties and has outlined those it considers material in its 2010 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, 2010. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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) | Mar. 31, 2011 ¹ | Dec. 31, 2010 ¹ | Sept. 30, 2010 ¹ | June 30, 2010 ¹ |
| Power generated (MWh) | 240,180 | 343,754 | 356,262 | 369,753 |
| Operating revenues | 20.8 | 26.8 | 25.2 | 25.4 |
| EBITDA | 14.7 | 19.0 | 19.7 | 18.8 |
| Net earnings (loss) | 5.7 ² | 14.9 ³ | (11.6) ⁴ | (7.0) ⁵ |
| Net earnings (loss) (\$ per share – basic and diluted) | 0.08 ² | (0.25) ³ | (0.19) ⁴ | (0.12) ⁵ |
| Cash flows from operating activities | 12.6 | 10.6 | 13.7 | (8.0) |
| Change in non-cash working capital items | 4.5 | (0.3) | 0.5 | 21.2 |
| Net (investments in) withdrawals from the reserve accounts (not funded from long-term debt) | 1.6 | (0.1) | (0.3) | (0.5) |
| Adjusted cash flows from operating activities | 10.8 | 10.4 | 13.9 | 12.8 |
| Dividends declared on Series A Preferred Shares | 1.1 | 1.5 | - | - |
| Dividends declared on common shares | 8.6 | 8.6 | 8.6 | 8.8 |
| Dividends declared on common shares (\$ per share) | 0.145 | 0.145 | 0.145 | 0.148 |

1. Prepared in accordance with IFRS

2. Excluding the unrealized gain on derivative financial instruments of \$9.5 million and the related deferred income tax provision of \$2.6 million, the net loss for Q1-2011 would have been \$1.2 million (\$0.04 per basic and diluted common share).

3. Excluding the unrealized gain on derivative financial instruments of \$15.5 million and the related deferred income tax provision of \$4.1 million, the net earnings for Q4-2010 would have been \$3.5 million (\$0.06 per basic and diluted common share).

4. Excluding the unrealized loss on derivative financial instruments of \$20.1 million and the related deferred income tax recovery of \$5.4 million, the net earnings for Q3-2010 would have been \$3.1 million (\$0.05 per basic and diluted common share).

5. Excluding the unrealized loss on derivative financial instruments of \$14.1 million and the related deferred income tax recovery of \$3.8 million, the net earnings for Q2-2010 would have been \$3.3 million (\$0.06 per basic and diluted common share).

Quarterly Financial Information (unaudited) for the Three-Month Periods Ended:

| (in millions of dollars, unless otherwise stated) | Mar. 31, 2010 ¹ | Dec. 31, 2009 ² | Sept. 30, 2009 ² | June 30, 2009 ² |
|---|----------------------------|----------------------------|-----------------------------|----------------------------|
| Power generated (MWh) | 157,666 | 189,011 | 223,302 | 247,764 |
| Operating revenues | 14.0 | 13.2 | 15.0 | 16.5 |
| EBITDA | 10.7 | 10.2 | 11.9 | 13.6 |
| Net (loss) earnings | (64.9) ³ | 7.0 | 2.8 | 13.4 ⁴ |
| Net (loss) earnings (\$ per share – basic and diluted) | (1.33) ³ | 0.16 | 0.07 | 0.31 ⁴ |
| Cash flows from operating activities | (8.2) | 4.8 | 10.3 | 11.4 |
| Change in non-cash working capital items | 0.3 | 2.4 | (2.1) | (1.4) |
| Net (investments in) withdrawals from the reserve accounts (not funded from long-term debt) | 0.9 | - | 0.2 | (0.8) |
| Adjusted cash flows from operating activities | 7.5 | 7.2 | 8.4 | 9.2 |
| Dividends declared on common shares | 7.2 | 7.4 | 7.4 | 7.4 |
| Dividends declared on common shares (\$ per share) | 0.169 | 0.171 | 0.171 | 0.171 |

1. Prepared in accordance with IFRS

2. Prepared in accordance with Canadian GAAP

3. Excluding the unrealized loss on unitholders' capital of \$51.8 million, the unrealized loss on derivative financial instruments of \$2.0 million, the related deferred income tax recovery of \$0.8 million, the non-cash expense related to royalty agreement of \$1.0 million and the distributions declared to unitholders of \$7.2 million, the net loss for Q1-2010 would have been \$3.7 million (\$0.09 per basic and diluted common share).

4. Excluding the unrealized foreign exchange gain of \$0.2 million, the unrealized gain on derivative financial instruments of \$11.2 million and the related deferred 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 common share).

MANAGEMENT'S DISCUSSION AND ANALYSIS

(in thousands of Canadian dollars, except as noted, and amounts per 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 revenues, EBITDA and adjusted cash flows from operating activities vary from quarter to quarter. As the Corporation's total average long-term production is 72% 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, premiums for the electricity generated during the coldest months of the year included in some PPAs of the Corporation's hydroelectric facilities attenuate this seasonality. The production of the wind farms also partially compensates for this seasonality experienced by hydroelectric facilities, 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 of 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. As a result of the transition to IFRS, another factor impacting only the first quarter of 2010 is the \$51.8 million unrealized loss on unitholders' capital. Historical analysis of net earnings and net earnings per share should therefore take these factors 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

Solar Applications under the FIT Program in Ontario

Since the end of the first quarter of 2011, Innergex has submitted another application under the FIT Program for solar photovoltaic projects in Ontario totalling 10.0 MW. This last application brings Innergex's total number of applications under the FIT Program for solar photovoltaic projects to six, with a total capacity of 59.0 MW.

Acquisition of Cloudworks Energy Inc. and \$166 million Equity Offering

On April 4, 2011, Innergex announced that it had finalized the acquisition of all of the issued and outstanding shares of Cloudworks Energy Inc. Cloudworks' assets increased Innergex's net installed capacity by 23% (from 325.5 MW to 400.5 MW). The Cloudworks Acquisition also enabled Innergex to increase its weighted average remaining EPA term from approximately 21 to 25 years, when the Development Projects are included.

Acquisition of Stardale Solar Project

On April 20, 2011, the Corporation announced that it had completed the acquisition of the 33.2 MW_{DC} Stardale Photovoltaic Solar Project located in Ontario. Subject to certain adjustments, the total development costs are expected to be \$140.0 million including \$11.1 million to be paid under the share purchase agreement. On April 28, 2011, the Corporation agreed to the terms and conditions of a Commitment Letter for the construction and long-term debt financing of the Stardale Project. Construction of the Stardale Project began in November 2010 and is expected to be completed by March 2012.

Reduction of the Stated Capital Account of the Corporation

On May 10, 2011, during the annual and special meeting of shareholders of the Corporation, the special resolution to approve the reduction of the stated capital account maintained in respect of the common shares of the Corporation, without any payment or distribution to the shareholder, to \$500,000 was adopted. As a result, an amount equal to the difference between the stated capital account maintained in respect of the common shares as at May 10, 2011, and \$500,000 will be credited to the Corporation's contributed surplus account.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Information for Investors

Stock Exchange Listing

Common Shares of Innergex Renewable Energy Inc. are listed on the TSX under the symbol INE.
Series A Preferred Shares of Innergex Renewable Energy Inc. are listed on the TSX under the symbol INE.PR.A.
Convertible Debentures of Innergex Renewable Energy Inc. are listed on the TSX under the symbol INE.DB.

Rating Agencies

Innergex Renewable Energy Inc. is rated BBB- by S&P and BBB (low) by DBRS.
Series A Preferred Shares of Innergex Renewable Energy Inc. are rated P-3 by S&P and Pfd-3 (low) by DBRS.

Transfer Agent and Registrar

Computershare Trust Company of Canada
1500 University Street, Suite 700, Montreal, Quebec, H3A 3S8
Telephone: 1 800 564-6253 or 514 982-7555
Email: service@computershare.com

Auditors

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.

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:

Jean Trudel
Chief Investment Officer and
Senior Vice President – Communications

Édith Ducharme
Director – Financial Communications and Investor Relations

The logo for Innergex, featuring the word "INNERGEX" in a bold, blue, sans-serif font.

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Sustainable Development.

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