

# 2010

Third Quarter Report



# Consolidated financial statements

For the three-month and nine-month periods ended September 30, 2010

(Unaudited)

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

Consolidated statements of Earnings	Three-month period ended Sept. 30, 2010	Three-month period ended Sept. 30, 2009	Nine-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2009
	\$	\$	\$	\$
<b>Revenues</b>				
Operating	24,716	14,982	63,091	45,442
<b>Expenses</b>				
Operating	3,299	2,178	8,451	6,182
Stock-based compensation	126	-	203	-
General and administrative	1,097	884	4,006	2,695
	4,522	3,062	12,660	8,877
Earnings from operations	20,194	11,920	50,431	36,565
Prospective projects expenses	440	-	1,202	-
Earnings before interests, income taxes, depreciation and amortization and other items	19,754	11,920	49,229	36,565
Interest on long-term debt and convertible debentures	6,373	3,318	16,256	9,965
Realized gain on derivative financial instruments	-	-	(555)	-
Realized foreign exchange gain	(49)	(105)	(26)	(160)
Other net revenues	(11)	(35)	(10)	(101)
Earnings before income taxes, depreciation and amortization and other items	13,441	8,742	33,564	26,861
Depreciation and amortization	8,555	5,330	22,621	15,998
Unrealized net loss (gain) on derivative financial instruments	20,098	793	36,240	(10,978)
Expense related to royalty agreement upon share exchange arrangement (Note 3)	-	-	983	-
Unrealized foreign exchange gain	(8)	(162)	(6)	(298)
(Loss) earnings before income taxes	(15,204)	2,781	(26,274)	22,139
(Recovery of) provision for income taxes				
Current	(264)	329	(1,286)	565
Future	(4,036)	(382)	(7,061)	2,368
	(4,300)	(53)	(8,347)	2,933
<b>Net (loss) earnings</b>	<b>(10,904)</b>	<b>2,834</b>	<b>(17,927)</b>	<b>19,206</b>
Weighted average number of shares outstanding (in 000)	59,533	42,930	54,181	42,930
Basic net (loss) earnings per share (Note 12)	(0.19)	0.07	(0.33)	0.45
Diluted net (loss) earnings per share	(0.19)	0.07	(0.33)	0.45

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

# Consolidated financial statements

For the three-month and nine-month periods ended September 30, 2010

(Unaudited)

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

Consolidated statements of Comprehensive (loss) income	Three-month period ended Sept. 30, 2010	Three-month period ended Sept. 30, 2009	Nine-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2009
	\$	\$	\$	\$
Net (loss) earnings	(10,904)	2,834	(17,927)	19,206
Other items of comprehensive (loss) income				
Unrealized foreign exchange loss on translation of a self-sustaining foreign subsidiary	(150)	(324)	(90)	(469)
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	165	303	101	442
	15	(21)	11	(27)
Comprehensive (loss) income	(10,889)	2,813	(17,916)	19,179

# Consolidated financial statements

For the three-month and nine-month periods ended September 30, 2010

(Unaudited)

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

Consolidated Balance Sheets	September 30, 2010	December 31, 2009
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	37,711	9,352
Accounts receivable	13,804	6,164
Current portion of reserve accounts	494	477
Current portion of future income taxes	2,217	213
Current portion of derivative financial instruments	1,458	1,369
Prepaid and others	5,221	1,938
	<b>60,905</b>	<b>19,513</b>
Reserve accounts	20,966	14,913
Property, plant and equipment	608,908	334,199
Intangible assets	179,305	119,426
Project development costs	15,738	-
Derivative financial instruments	8,926	8,779
Future income taxes	10,539	2,372
Goodwill	8,269	8,269
Other long-term assets	159	670
	<b>913,715</b>	<b>508,141</b>
<b>Liabilities</b>		
Current liabilities		
Dividends/distributions payable to shareholders/unitholders	8,632	2,451
Accounts payable and accrued liabilities	19,893	9,574
Current portion of future income taxes	289	-
Current portion of derivative financial instruments	8,873	5,422
Current portion of long-term debt (Note 4)	9,163	2,758
	<b>46,850</b>	<b>20,205</b>
Derivative financial instruments	36,916	4,795
Long-term debt (Note 4)	335,087	221,803
Asset retirement obligations	1,559	977
Future income taxes	70,908	70,883
Convertible debentures (Note 5)	79,296	-
	<b>570,616</b>	<b>318,663</b>
<b>Shareholders'/Unitholders' equity</b>	<b>343,099</b>	<b>189,478</b>
	<b>913,715</b>	<b>508,141</b>

Commitments (Note 9)

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

# Consolidated financial statements

For the three-month and nine-month periods ended September 30, 2010

(Unaudited)

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

Consolidated statements of changes in Shareholders'/Unitholders' Equity	Nine-month period ended September 30, 2010		Nine-month period ended September 30, 2009	
	Shares/Units (in 000)	\$	Units (in 000)	\$
Unitholders' capital account – beginning	29,404	309,681	29,404	309,681
Reduction of unitholders' capital account owned by the Corporation and not converted into common shares	(4,724)	(49,756)	-	-
Adjustment to number of units to reflect the 1.46 conversion ratio	11,353	-	13,526	-
Reduction of capital accounted upon acquisition of the Corporation	-	(7,409)	-	-
Common shareholders' capital account from common shares of the Corporation already issued prior to conversion	23,500	167,129	-	-
Common shareholders' capital account from expense related to royalty agreement upon share exchange arrangement	-	983	-	-
Reduction of capital on common shares	-	(420,627)	-	-
Unitholders' capital account – end	-	-	42,930	309,681
Common shareholders' capital account – end	59,533	1	-	-
Contributed surplus from reduction of capital on common shares		420,627		-
Series A Preferred Shares – beginning	-	-	-	-
Issued during the period (Note 6)	3,400	82,740	-	-
Series A Preferred Shares - end	3,400	82,740	-	-
Fair value of stock-based compensation accounted upon acquisition of the Corporation		497		-
Stock-based compensation of the period		203		-
Stock-based compensation – end		700		-
Equity portion of convertible debentures accounted upon acquisition of the Corporation (Notes 3 and 5)		1,841		-
Deficit, beginning		(120,274)		(117,113)
Net (loss) earnings		(17,927)		19,206
Dividends/Distributions declared to shareholders/unitholders		(24,691)		(22,053)
Deficit, end		(162,892)		(119,960)
Cumulative other comprehensive income – beginning		71		98
Other items of comprehensive income		11		(27)
Cumulative other comprehensive income – end		82		71
Total deficit and cumulative other comprehensive income		(162,810)		(119,889)
Shareholders'/Unitholders' Equity – end		343,099		189,792

Additional information is presented in Note 3.

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

# Consolidated financial statements

For the three-month and nine-month periods ended September 30, 2010

(Unaudited)

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

Consolidated statements of Cash Flows	Three-month period ended Sept. 30, 2010	Three-month period ended Sept. 30, 2009	Nine-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2009
	\$	\$	\$	\$
<b>Operating activities</b>				
Net (loss) earnings	(10,904)	2,834	(17,927)	19,206
Items not affecting cash:				
Depreciation of property, plant and equipment	5,147	2,885	13,197	8,660
Amortization of intangible assets	3,408	2,444	9,424	7,338
Amortization of financing fees	81	-	713	-
Accretion expense on asset retirement obligations	30	19	80	56
Stock-based compensation	126	-	203	-
Unrealized net loss (gain) on derivative financial instruments	20,098	793	36,240	(10,978)
Future income taxes	(4,036)	(382)	(7,061)	2,368
Unrealized foreign exchange gain	(8)	(162)	(6)	(298)
Expense related to royalty agreement upon share exchange arrangement (Note 3)	-	-	983	-
Others	89	-	52	-
Effect of exchange rate fluctuations	(82)	(256)	(53)	(330)
	13,949	8,175	35,845	26,022
Changes in non-cash operating working capital items (Note 7)	1,462	2,123	(23,350)	3,955
	15,411	10,298	12,495	29,977
<b>Financing activities</b>				
Dividends paid to common shareholders	(8,822)	-	(8,822)	-
Distributions paid to former unitholders	-	(7,352)	(9,688)	(22,051)
Increase of long-term debt	26,100	-	116,820	-
Repayment of bank loan	-	-	(12,900)	-
Repayment of long-term debt	(81,679)	(647)	(202,917)	(1,906)
Issuance of Series A Preferred Shares (Note 6)	85,000	-	85,000	-
Issuance costs of Series A Preferred Shares	(2,662)	-	(2,662)	-
Deferred financing costs	(35)	-	(1,749)	-
	17,902	(7,999)	(36,918)	(23,957)

# Consolidated financial statements

For the three-month and nine-month periods ended September 30, 2010

(Unaudited)

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

Consolidated statements of Cash Flows (Continued)	Three-month period ended Sept. 30, 2010	Three-month period ended Sept. 30, 2009	Nine-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2009
	\$	\$	\$	\$
<b>Investing activities</b>				
Additions to property, plant and equipment	(18,108)	(101)	(19,923)	(1,804)
Additions to intangible assets	(199)	-	(267)	-
Additions to project development costs	(950)	-	(7,407)	-
Additions to other long-term assets	(18)	-	(96)	-
Business Acquisition	-	636	-	636
Short-term loan to a partner	(1,000)	-	(1,000)	-
Net cash acquired on business acquisition (Note 3)	(1,673)	-	83,131	-
Proceeds from disposal of property, plant and equipment	298	-	298	-
Net funds withdrawn from the levelization reserve	365	445	570	266
Net funds invested into wind/hydro reserve	(562)	-	(2,336)	-
Net funds invested into majors repairs reserve accounts	(146)	(245)	(142)	(735)
	(21,993)	735	52,828	(1,637)
Translation adjustment on cash and cash equivalents	(21)	48	(46)	50
Net increase in cash and cash equivalents	11,299	3,082	28,359	4,433
Cash and cash equivalents, beginning of period	26,412	9,988	9,352	8,637
<b>Cash and cash equivalents, end of period</b>	<b>37,711</b>	<b>13,070</b>	<b>37,711</b>	<b>13,070</b>
<i>Cash and cash equivalents is comprised of:</i>				
Cash	13,783	4,806	13,783	4,806
Short-term investments	23,928	8,264	23,928	8,264
	37,711	13,070	37,711	13,070

Additional information is presented in Note 7.

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

# Notes to the consolidated financial statements

## For the three-month and nine-month periods ended September 30, 2010 (Unaudited)

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

### 1. Description of business

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

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

**Revenues for the nine-month period of 2010 include a complete nine-month period for the Fund’s revenues and, since March 30, 2010, the Corporation’s revenues from the assets acquired on that date.**

### 2. Significant accounting policies

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

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

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

#### *Consolidation of variable interest entities*

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

#### *Government assistance*

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



# Notes to the consolidated financial statements

## For the three-month and nine-month periods ended September 30, 2010 (Unaudited)

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

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

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

### *Reserve accounts*

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

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

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

### *Property, plant and equipment*

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

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

# Notes to the consolidated financial statements

## For the three-month and nine-month periods ended September 30, 2010 (Unaudited)

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

### *Intangible assets*

Intangible assets consist of various permits, licenses and agreements. They are recorded at cost. Financing costs related to the construction period are capitalized. They are amortized using the straight-line method over a period extending from 11 to 40 years ending on the maturity date of the permits, licenses or agreements of each facility. Intangible assets are related to four categories, being hydroelectric facilities, hydroelectric facilities under construction, wind farm facilities and wind farm facilities under construction. Intangible assets related to facilities under construction are not amortized until the commissioning date of the related facilities. Intangible assets also include the cost of an extended warranty for wind farm equipments; these costs are amortize over the three-year warranty period.

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

### *Project development costs*

Project development costs represent costs incurred for the acquisition of prospective projects and for the development of hydroelectric and wind farm sites. These costs are transferred to property, plant and equipment or intangible assets when construction starts. Current cost 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.

### *Goodwill*

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

### *Income taxes*

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

### *Earnings per share*

Basic earnings per share are computed by dividing net earnings 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 periods presented.

# Notes to the consolidated financial statements

## For the three-month and nine-month periods ended September 30, 2010 (Unaudited)

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

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

### *Stock-based compensation*

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

### 3. Share exchange arrangement

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

As a result, for accounting purposes, the Corporation is required to be accounted for as though it was a continuation of the Fund but with its share capital reflecting the exchange of the Corporation shares for Fund units. 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. After that date all payments to shareholders are in the form of dividends.

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

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

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

The total estimated purchase price has been calculated as follows:

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

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

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

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

The estimated transaction expenses relating to the combination totalling \$ 6,000 have been recognized as cost of the business combination in accordance with Section 1581 of the CICA Handbook. As at September 30, 2010, an amount of \$ 1,673 has been paid out of the \$ 2,410 unpaid as at March 29, 2010. Net cash acquired amounted to \$ 83,131.

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

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

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

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

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

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 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 Canadian GAAP, the Fund had to expense the engagement it had with Innergex prior to the Combination. In year 2005, a subsidiary of the Corporation, sold the Rutherford Creek hydroelectric facility to the Fund. Rutherford Creek Power, Limited Partnership, which owns the assets, then agreed, following the expiry or termination of the Rutherford Creek Power Purchase Agreement in 2024, to pay royalties to the subsidiary provided certain revenue thresholds are reached. This expense had no cash impact on the Corporation's results as it was considered to be paid for by the issuance of shares.

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

**4. Long-term debt**

	September 30, 2010	December 31, 2009
	\$	\$
<b>Operating facility (a)</b>		
Bankers' acceptances renewable until March 2013	-	-
LIBOR advances, US\$13,900 renewable until March 2013 (rate of 3.28 %)	14,303	-
<b>BDS Facility (b)</b>		
Prime rate advance renewable until March 2013	-	-
Bankers' acceptances renewable until March 2013 (rate of 3.93 %)	10,000	-
<b>Facility 1</b>		
Prime rate advances renewable until May 2013 (rate of 2.38%);	-	93
Bankers' acceptances renewable until May 2013 (rate of 1.52%);	-	51,200
LIBOR advances, US\$5,000 renewable until May 2013 (average rate of 1.38%)	-	5,255
<b>Facility 2</b>		
LIBOR advances, US\$8,873 renewable until May 2013 (average rate of 1.38 %)	-	9,325
<b>Facility 3</b>		
Bankers' acceptances renewable until May 2013 (rate of 1.52 %)	-	52,600
<b>Term loans</b>		
Hydro-Windsor, 8.25 % fixed rate term loan maturing in 2016;	6,034	6,590
Rutherford Creek, 6.88 % fixed rate term loan maturing in 2024;	50,000	50,000
AAV, floating-rate term loan maturing in 2026, (rate of 2.29 %; 1.44 % in 2009);	48,447	50,067
Glen Miller, floating-rate term loan maturing in 2013, (rate of 2.50 %) (c);	14,750	-
Umbata Falls, floating-rate term loan maturing in 2014, (rate of 2.48 %) (d);	24,459	-
CAR, floating-rate term loan maturing in 2013, (rate of 2.66 %) (e);	50,180	-
Ashlu Creek, floating-rate term loan maturing in 2025, (rate of 2.81 %) (f);	104,821	-
Fitzsimmons Creek, floating-rate construction loan maturing in 2015, (rate of 4.62 %) (g);	22,566	-
Kwoiek Creek, 20 % fixed rate term loan during development phase and 14 % fixed rate during construction and operation phase (h)	150	-
	345,710	225,130
<b>Deferred financing costs</b>	<b>(1,460)</b>	<b>(569)</b>
	344,250	224,561
Current portion of long-term debt	(9,163)	(2,758)
	335,087	221,803

# Notes to the consolidated financial statements

## For the three-month and nine-month periods ended September 30, 2010 (Unaudited)

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

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

### **(a) Operating facility**

A \$ 117,400 revolving credit facility secured by a first-ranking hypothec on the Corporation's assets and by various security interests granted by some of its subsidiaries. The facility will mature in 2013 and is not amortized. Advances are made in the form of bankers' acceptances ("BA"), prime-rate advances, US base-rate advances, LIBOR rate advances or letters of credit. In all cases, interest is calculated at the prevailing benchmark rate, plus an additional margin based on the Corporation's ratio of consolidated senior debt to adjusted EBITDA.

As at September 30, 2010, a LIBOR rate advance of \$ 14,303 (US\$ 13,900) bearing interest at a rate of 3.28% was due under this facility and an amount of \$ 20,048 was used for the issuance of letters of credit. Thus the unused and available portion of the Operating Facility amounted to \$ 83,049. The net book value of the assets of the Corporation and subsidiaries given as securities under the operating facility totals approximately \$ 276,323.

### **(b) BDS Facility**

A \$ 52,600 revolving credit facility guaranteed by a security interest granted by Innergex and the Corporation's 38% interest in the BDS wind farm. The facility will mature in 2013 and is not amortized. Advances are made in the form of BA, prime-rate advances, US base-rate advances or LIBOR rate advances. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of consolidated senior debt to adjusted EBITDA.

As at September 30, 2010, an amount of \$ 10,000 was drawn and the loan bears interest at a rate of 3.93%. The unused and available portion of the facility amounted to \$ 42,600. The net book value of the 38% interest in the BDS wind farm is approximately \$ 80,427.

### **(c) Glen Miller Power, Limited Partnership**

The long-term debt relates to a loan made to provide long-term financing. The term loan consist of a 5-year term loan, amortized over a period of 17 years starting July 1, 2008 with a final maturity date on December 19, 2025. The loan bears interest at a rate of 2.50 % as at September 30, 2010. The principal repayments for the next year will amount to \$ 1,000. On August 16, 2009, the agreement was amended to make available to Glen Miller Power, Limited Partnership a letter of credit facility in an amount of \$ 160. The facility is totally used to secure one letter of credit.

The long-term debt is secured by a first-ranking security interest in the amount of \$ 20,400 on all the property and assets of Glen Miller Power, Limited Partnership and the equity interest in Glen Miller Power, Limited Partnership and its general partner. The net book value of the property and assets is approximately \$ 25,326.

### **(d) Umbata Falls Limited Partnership**

A lender agreed to make available for the Umbata Falls hydroelectric facility a non-recourse construction loan in a principal amount of \$ 51,000 (the share of the Corporation is 49 %). The construction loan was converted into a term loan in the second quarter of 2009. The loan bears interest at a rate of 2.48 % as at September 30, 2010. An amortization schedule, consisting in a 5-year term loan, amortized over a period of 25 years, was agreed with the lender and principal repayments started on September 30, 2009. Principal repayments for the next year will amount to \$ 930 (the share of the Corporation is 49 %).

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

# Notes to the consolidated financial statements

## For the three-month and nine-month periods ended September 30, 2010 (Unaudited)

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

The security constituted by the security documents comprises a valid and perfect first-ranking charge and security interest upon all of the property and assets of Umbata Falls Limited Partnership and all the equity investment in Umbata Falls Limited Partnership and its general partner. The net book value of the property and assets of Umbata Falls Limited Partnership, totals approximately \$ 85,461 (the share of the Corporation is 49 %).

### **(e) Innergex CAR, L.P.**

Lenders agreed to make available, for the Innergex CAR, L.P. wind power project, a non-recourse construction loan in a principal amount of \$ 53,400. The construction loan was converted into a term loan in the second quarter of 2009. The loan bears interest at a rate of 2.66 %. This debt was accounted for at its fair market value of \$ 51,699 as at March 29, 2010, for an effective interest rate of 2.11 %. Principal repayments for the next year will amount to \$ 2,669.

An amortization schedule, consisting in a 5-year term loan, amortized over a period of 18.5 years, was agreed with the lender and principal repayment started on December 31, 2008.

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

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

The net book value of the property and assets of Innergex CAR, L.P. totals approximately \$ 97,538.

### **(f) Ashlu Creek Investments Limited Partnership**

Lenders agreed to make available for the Ashlu Creek hydroelectric facility a non-recourse construction loan in a principal amount of up to but not exceeding \$ 110,000. This facility was fully drawn during the third quarter and it was converted into a term loan on July 9, 2010. The loan matures in 15 years. The loan bears interest at a rate of 2.81 %. The amount drawn as at March 29, 2010 was \$ 100,400. This debt was accounted for at its fair market value of \$ 95,587 as at March 29, 2010 for an effective interest rate of 1.74 %. Principal repayments for the next year amount to \$ 1,925.

The lenders also agreed to make available a letter of credit facility ("LC Facility"), on a revolving basis by way of letters of credit in the principal amount not exceeding \$ 3,000 until the final maturity date of the LC Facility, which is the fifteenth anniversary of the term conversion date as defined in the credit agreement. As at September 30, 2010 an amount of \$ 1,840 has been used to secure one letter of credit.

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

The net book value of the property and assets of Ashlu Creek Investments Limited Partnership, totals approximately \$ 176,425.

# Notes to the consolidated financial statements

## For the three-month and nine-month periods ended September 30, 2010 (Unaudited)

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

### (g) Fitzsimmons Creek Hydro Limited Partnership

Lenders agreed to make available, for the Fitzsimmons Creek Hydro Limited Partnership project, a non recourse construction loan in a principal amount up to but not exceeding \$ 24,000. The loan matures five years after conversion of the construction loan into a term loan. As at September 30, 2010, \$ 20,100 was drawn. The loan advances bear interest at a rate of 4.62 %. The amount drawn as at March 29, 2010 was \$ 17,100. This debt was accounted for at its fair market value of \$ 19,617 as at March 29, 2010 for an effective interest rate of 4.58 %. Principal repayments for the next year will amount to \$ 170.

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

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

The net book value of the property and assets of Fitzsimmons Creek Hydro Limited Partnership totals approximately \$ 18,995.

### (h) Kwoiek Creek Resources Limited Partnership

The Kwoiek Creek Resources Limited Partnership's long-term debt consists of a loan made by the partner of the Corporation in the Kwoiek Creek Project. As per the agreements related to the project, both partners can participate in the financing of the project. The Corporation can participate up to an amount of \$ 20,000 and its partner up to an amount of \$ 3,000. The loan bears interests at a rate of 20 % during the development phase and 14 % during the construction and operating phases. The Corporation loan made to Kwoiek Creek Resources Limited Partnership, which is eliminated in the consolidation process of the financial statements, amounts to \$ 9,649. The partner loan made to Kwoiek Creek Resources Limited Partnership amounts to \$ 150.

## 5. Convertible debentures

The convertible debentures were part of the assumed liabilities on the share exchange arrangement described in Note 3. The convertible debentures bear interest at an annual rate of 5.75 % and will mature on April 30, 2017. They were accounted at their fair market value of \$ 79,222 as at March 29, 2010, for an effective interest rate of 6.09 %. Interest is payable semi-annually on April, 30 and October 31, of each year commencing on October 31, 2010.

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

The convertible debentures may not be redeemed by the Corporation on or before April 30, 2013 except in certain limited circumstances following a change of control. After April 30, 2013, and prior to April 30, 2015, the convertible debentures may be redeemed by the Corporation, in whole or in part from time to time. Such redemption would be done at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given is not less than 125 % of the Conversion Price. On or after April 30, 2015 and prior to April 30, 2017, the convertible debentures may be redeemed in whole or in part at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest. Subject to required regulatory approval, the Corporation may, at its option, elect to satisfy its obligation to pay the principal amount of the convertible debentures on redemption or at maturity, in whole or in part,



# Notes to the consolidated financial statements

## For the three-month and nine-month periods ended September 30, 2010 (Unaudited)

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

through the issuance of freely tradable common shares upon prior notice, by delivering that number of common shares obtained by dividing the principal amount of the convertible debentures by 95 % of the current market price. Any accrued or unpaid interest will be paid in cash.

The convertible debentures are subordinated to all other indebtedness of the Corporation.

	September 30, 2010	December 31, 2009
	\$	\$
Debt portion of convertible debentures, at fixed rate, 5.75 % (effective rate of 6.09 %), maturing in April, 2017, with a face value of \$ 80,500	79,296	-
Equity portion of convertible debentures	1,841	-

## 6. Shareholders' capital

### Share capital

#### Authorized

The authorized capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, non-voting, retractable and redeemable. On September 14, 2010, the authorized capital was modified to included up to 3,400,000 Cumulative Rate Reset Preferred Shares, Series A (the "Series A Preferred Shares") and up to 3,400,000 Cumulative Floating Rate Preferred Shares, Series B (the "Series B Preferred Shares").

#### Preferred Shares

On September 14, 2010, the Corporation issued a total of 3,400,000 Series A Preferred Shares at \$ 25.00 per share for aggregate gross proceeds of \$ 85,000. For the initial five-year period to, but excluding January 15, 2016 (the "Initial Fixed Rate Period"), the holders of Series A Preferred Shares will be 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 will be payable quarterly on the 15<sup>th</sup> day of January, April, July and October in each year at an annual rate equal to \$1.25 per share. The initial dividend of \$0.42123 per share will be payable on January 17, 2011.

For each five-year period after the Initial Fixed Rate Period (each a "Subsequent Fixed Rate Period"), the holders of the Series A Preferred Shares will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board of Directors. The dividends will be payable quarterly in an annual amount per Series A Preferred Share, equal to the sum of the yield on a Government of Canada bond with a term to maturity of five years on the applicable fixed rate calculation date, plus 2.79%, applicable to such Subsequent Fixed Rate Period multiplied by \$25.00.

Each holder of Series A Preferred Shares will have the right, at its option, to convert all or any of its Series A Preferred Shares into the Series B Preferred Shares of the Corporation on the basis of one Series B Preferred Share for each Series A Preferred Share converted, subject to certain conditions, on January 15, 2016 and on January 15 every five years thereafter. The holders of Series B Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors. The dividends will be payable quarterly in an annual amount per Series B Preferred Share equal to the Treasury Bills rate for the preceding quarterly period, plus 2.79%, per annum determined on the 30<sup>th</sup> day prior to the first day of the applicable quarterly floating rate period multiplied by \$25.00.

The Series A Preferred Shares and the Series B Preferred Shares will not be redeemable by the Corporation prior to January 15, 2016.

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

	September 30, 2010	December 31, 2009
	\$	\$
Series A Preferred Shares 3,400,000 shares, \$25.00 each	85,000	-
Issuance costs	(3,117)	-
Future income taxes	857	-
Net proceeds	82,740	-

**Stock option plan**

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

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

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

	September 30, 2010		December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	(000's)	\$	(000's)	\$
Outstanding - beginning of period			-	-
Outstanding stock options assumed on the share exchange arrangement described in Note 3.	1,269	11.00	-	-
Granted	808	8.75	-	-
Exercised	-	-	-	-
Cancelled	235	11.00	-	-
Outstanding - end of period	1,842	10.02	-	-
Options exercisable - end of period	517	11.00	-	-

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

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

Outstanding		Exercisable		Year of maturity
Number of options (000's)	Exercise price \$	Number of options (000's)	Exercise price \$	
1,034	11.00	517	11.00	2017
808	8.75	-	8.75	2020
1,842		517		

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

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

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

**Warrants**

On August 29, 2010, the 200,000 warrants granted by the Corporation expired. The warrants were assumed on the share exchange arrangement described in Note 3. The warrants were exercisable at a strike price of \$ 12.50 per warrant.

## Notes to the consolidated financial statements

For the three-month and nine-month periods ended September 30, 2010

(Unaudited)

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

### 7. Additional information to the Consolidated Statements of Cash Flows

*Changes in non-cash operating working capital items*

	Three-month period ended Sept. 30, 2010	Three-month period ended Sept. 30, 2009	Nine-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2009
	\$	\$	\$	\$
Accounts receivable	(478)	2,138	(3,937)	2,695
Prepaid and others	(1,207)	(335)	(1,502)	1,630
Accounts payable and accrued liabilities	3,147	320	(17,911)	(370)
	1,462	2,123	(23,350)	3,955
<i>Additional information</i>				
Interest paid	4,424	3,292	11,863	9,624
Income taxes paid	16	27	2,125	127
<i>Non-cash transactions</i>				
Decrease (increase) of unpaid property, plant and equipment	411	310	(3,074)	310
Increase of unpaid transaction costs	(377)	-	(425)	-
Increase of unpaid issuance costs for Series A Preferred Shares	(455)	-	(455)	-
Decrease (increase) of unpaid development costs	1,673	-	(66)	-

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

**8. Financial instruments**

**Interest rate risk**

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

Face value of contracts reducing risk of interest rate fluctuations	Early termination option	September 30, 2010	December 31, 2009
		\$	\$
Interest rate swaps at rates varying from 3.96% to 4.09 %, expiring in June 2015	None	15,000	15,000
Interest rate swap, 4.27 %, expiring in November 2016	None	3,000	3,000
Interest rate swap, 4.41 %, expiring in June 2018	March 2013	30,000	30,000
Interest rate swap, 4.27 %, expiring in June 2018	March 2013	52,600	52,600
Interest rate swap, 4.93 %, amortized until March 2026	None	48,447	50,067
Interest rate swap, 3.45 %, amortized until March 2027	December 2013	49,393	-
Forward interest rate swap, 4.44 %, amortized until June 2030	June 2014	23,765	-
Forward interest rate swap, 4.46 %, amortized until June 2031	June 2014	37,460	-
Interest rate swap, 4.11 %, amortized until June 2034 (total of \$ 49,917, 49 % share)	None	24,459	-
Forward interest rate swaps, 4.70 %, amortized until June 2035	June 2025	109,537	-
		393,661	150,667

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

On April 29, 2010, the Corporation settled a \$ 110,000 forward-starting amortizing interest rate swap. Concurrently, the Corporation entered into two forward-starting amortizing interest rate swap for a total of \$ 109,537, thereby fixing the interest rate at 4.70 % starting on the effective date of September 30, 2010 until the end of the related long-term debt amortization schedule of June 2035.

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

**9. Commitments**

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

Contractual obligations (Period ending September 30)	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
2011	19,186	13,534	41,755	74,475
2012	19,155	13,083	73,439	105,677
2013	32,715	12,683	41,822	87,220
2014	41,583	48,616	6,749	96,948
2015	17,645	7,033	6,633	31,311
Thereafter	227,566	64,763	104,789	397,118
Total	357,850	159,712	275,187	792,749

**10. Segment Information**

Reportable segments

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

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

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

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

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

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

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
<b>Three-month period ended September 30, 2010</b>				
Gross operating revenues from external clients	19,547	5,169	-	24,716
Expenses:				
Operating expenses	2,618	681	-	3,299
Stock-based compensation	49	29	48	126
General and administrative expenses	501	266	330	1,097
Prospective projects expenses	-	-	440	440
Earnings (loss) before interests, income taxes, depreciation and amortization and other items	16,379	4,193	(818)	19,754
<b>Three-month period ended September 30, 2009</b>				
Gross operating revenues from external clients	11,887	3,095	-	14,982
Expenses:				
Operating expenses	1,694	484	-	2,178
General and administrative expenses	663	221	-	884
Earnings before interests, income taxes, depreciation and amortization and other items	9,530	2,390	-	11,920
<b>Nine-month period ended September 30, 2010</b>				
Gross operating revenues from external clients	47,560	15,531	-	63,091
Expenses:				
Operating expenses	6,610	1,841	-	8,451
Stock-based compensation	78	46	79	203
General and administrative expenses	1,931	961	1,114	4,006
Prospective projects expenses	-	-	1,202	1,202
Earnings (loss) before interests, income taxes, depreciation and amortization and other items	38,941	12,683	(2,395)	49,229
<b>Nine-month period ended September 30, 2009</b>				
Gross operating revenues from external clients	33,101	12,341	-	45,442
Expenses:				
Operating expenses	4,796	1,386	-	6,182
General and administrative expenses	1,971	724	-	2,695
Earnings before interests, income taxes, depreciation and amortization and other items	26,334	10,231	-	36,565

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

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
<b>As at September 30, 2010</b>				
Goodwill	8,269	-	-	8,269
Total assets	577,399	268,026	68,290	913,715
Acquisition of capital assets since the beginning of the year	719	292	24,383	25,394
<b>As at December 31, 2009</b>				
Goodwill	8,269	-	-	8,269
Total assets	330,157	177,984	-	508,141

**11. Comparative figures**

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

**12. Computation of Earnings available to common shareholders**

The net (loss) earnings of the Corporation is adjusted for the preferred return allocated to the preferred shares as follows:

	Three-month period ended Sept. 30, 2010	Three-month period ended Sept. 30, 2009	Nine-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2009
Net (loss) earnings	(10,904)	2,834	(17,927)	19,206
Less:				
Accrued dividends on preferred shares	208	-	208	-
Net (loss) earnings available to common shareholders	(11,112)	2,834	(18,135)	19,206
Weighted average number of shares outstanding (in 000)	59,533	42,930	54,181	42,930
Basic net (loss) earnings per share (\$)	(0.19)	0.07	(0.33)	0.45



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

This Management's Discussion and Analysis ("MD&A") has been prepared as at November 8, 2010.

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

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

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

### STRATEGIC COMBINATION OF THE FUND AND INNERGEX

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

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

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

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

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

### ESTABLISHMENT, MAINTENANCE AND EFFECTIVENESS OF DC&P AND ICFR

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

- Disclosure controls and procedures ("DC&P") to provide reasonable assurance that: (i) material information relating to the Corporation is accumulated and communicated by others to the President and Chief Executive Officer and the Vice President and Chief Financial Officer, in a timely manner, particularly during the period in which the interim filings are being prepared; and (ii) the information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.
- Internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP applicable to the Corporation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

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

### FORWARD-LOOKING STATEMENTS

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### OVERVIEW

#### General

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

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

- 17 operating facilities with an aggregate net installed capacity of 325.5 MW (gross 537.8 MW). These consist of 14 hydroelectric facilities and three wind farms with aggregate net installed capacities of 204.1 MW (gross 218.3 MW) and 121.4 MW (gross 319.5 MW) respectively. Commissioned between November 1994 and January 2010, the facilities have a weighted average age of approximately 5.7 years. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 17.2 years;
- seven development projects with an aggregate net installed capacity of 202.9 MW (gross 432.9 MW) for which PPAs with public utilities have been secured. Construction began on three of these projects in June 2010. Construction is expected to begin on another by the end of 2010 and on the remaining three projects in 2013 and 2014. The projects are expected to reach the commercial operation stage between 2011 and 2016; and
- a net capacity of more than 2,000 MW (gross 2,100 MW) in prospective projects that are at various stages of development.

#### Portfolio of Assets

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

- facilities that are in commercial operation (the "Operating Facilities");
- projects for which PPAs have been secured and which are either under construction or scheduled to begin commercial operation on planned dates. (the "Development Projects");
- projects that have secured certain land rights, for which an investigative permit application has been filed and for which a proposal has been submitted under a Request for Proposal ("RFP") or could be submitted under a Standing Offer Program ("SOP") or Feed-In Tariff Program ("FIT Program") (the "Prospective Projects").

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010



Operating Facilities	Development Projects	Prospective Projects
<p><b>Hydro</b></p> <ul style="list-style-type: none"> <li>- 100% St-Paulin, QC (8.0 MW)</li> <li>- 100% Windsor, QC (5.5 MW)</li> <li>- 100% Chaudière, QC (24.0 MW)</li> <li>- 100% Portneuf-1, QC (8.0 MW)</li> <li>- 100% Portneuf-2, QC (9.9 MW)</li> <li>- 100% Portneuf-3, QC (8.0 MW)</li> <li>- 100% Montmagny, QC (2.1 MW)</li> <li>- 100% Glen Miller, ON (8.0 MW)</li> <li>- 49% Umbata Falls, ON (23.0 MW)</li> <li>- 100% Batawa, ON (5.0 MW)</li> <li>- 100% Rutherford Creek, BC (49.9 MW)</li> <li>- 100% Ashlu Creek, BC (49.9 MW)</li> <li>- 66% Fitzsimmons Creek, BC (7.5 MW)</li> <li>- 100% Horseshoe Bend, Idaho, USA (9.5 MW)</li> </ul> <p><b>Wind</b></p> <ul style="list-style-type: none"> <li>- 38% Baie-des-Sables, QC (109.5 MW)</li> <li>- 38% L'Anse-à-Valleau, QC (100.5 MW)</li> <li>- 38% Carleton, QC (109.5 MW)</li> </ul>	<p><b>Hydro</b></p> <ul style="list-style-type: none"> <li>- 66% Boulder Creek, BC (23.0 MW)</li> <li>- 50% Kwoiek Creek, BC (49.9 MW)</li> <li>- 66% North Creek, BC (16.0 MW)</li> <li>- 66% Upper Lillooet, BC (74.0 MW)</li> </ul> <p><b>Wind</b></p> <ul style="list-style-type: none"> <li>- 38% Gros-Morne (Phase I), QC (100.5 MW)</li> <li>- 38% Gros-Morne (Phase II), QC (111.0 MW)</li> <li>- 38% Montagne-Sèche, QC (58.5 MW)</li> </ul>	<p><b>Hydro</b></p> <ul style="list-style-type: none"> <li>- 48% QC Projects (42.0 MW)</li> <li>- 100% BC Projects (19.8 MW)</li> <li>- 66% BC Projects (132.0 MW)</li> </ul> <p><b>Wind</b></p> <ul style="list-style-type: none"> <li>- 100% QC Projects (836.0 MW)</li> <li>- 70% QC Projects - Community (123.0 MW)</li> <li>- 50% QC Projects - Community (73.8 MW)</li> <li>- 100% ON Projects - FIT (440.0 MW)</li> <li>- 49% ON Projects - FIT (25.3 MW)</li> <li>- 100% BC Projects (475.0 MW)</li> </ul>
<p><b>Hydro</b></p> <p>Gross capacity: 218.3 MW Net capacity<sup>1</sup>: 204.1 MW</p> <p><b>Wind</b></p> <p>Gross capacity: 319.5 MW Net capacity<sup>1</sup>: 121.4 MW</p> <p><b>Total</b></p> <p>Gross capacity: 537.8 MW Net capacity<sup>1</sup>: 325.5 MW</p>	<p>162.9 MW 100.3 MW</p> <p>270.0 MW 102.6 MW</p> <p>432.9 MW 202.9 MW</p>	<p>193.8 MW 128.0 MW</p> <p>1,973.1 MW 1,886.4 MW</p> <p>2,166.9 MW 2,014.4 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.

## BUSINESS STRATEGY

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

## ANNUAL DIVIDEND POLICY

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### KEY PERFORMANCE INDICATORS

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

### SEASONALITY

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

Operating Facilities – Estimated Long-Term Averages								
Project name	Electricity purchaser	PPA expiry	Net installed capacity (MW)	Average long-term production (GW-hr) (Net interest)				
				Q1	Q2	Q3	Q4	Total
<i>HYDRO</i>								
St-Paulin	Hydro-Québec	2014 <sup>1</sup>	8.0	7.4	15.5	8.0	10.1	41.1
Windsor	Hydro-Québec	2016 <sup>1</sup>	5.5	9.7	7.8	5.6	7.9	31.0
Chaudière	Hydro-Québec	2019 <sup>1</sup>	24.0	26.0	40.8	17.6	32.2	116.7
Portneuf-1	Hydro-Québec	2021 <sup>2</sup>	8.0	4.3	14.9	11.5	10.1	40.8
Portneuf-2	Hydro-Québec	2021 <sup>2</sup>	9.9	10.0	20.1	19.3	19.1	68.5
Portneuf-3	Hydro-Québec	2021 <sup>2</sup>	8.0	4.4	15.6	11.9	10.4	42.4
Montmagny	Hydro-Québec	2021 <sup>2</sup>	2.1	1.4	3.2	1.0	2.3	8.0
Glen Miller	OPA <sup>3</sup>	2025	8.0	13.5	11.9	4.5	11.7	41.6
Umbata Falls	OPA <sup>3</sup>	2028	11.3	8.3	18.5	10.4	16.2	53.5
Batawa	OEFC <sup>4</sup>	2029	5.0	10.8	8.9	3.7	9.5	32.9
Rutherford Creek	BC Hydro <sup>5</sup>	2024	49.9	11.0	63.7	80.0	25.3	180.0
Ashlu Creek	BC Hydro <sup>5</sup>	2039	49.9	26.9	92.0	95.1	51.0	265.0
Fitzsimmons Creek	BC Hydro <sup>5</sup>	2050	5.0	2.2	7.3	8.9	3.6	22.0
Horseshoe Bend	IPC <sup>6</sup>	2030	9.5	7.9	17.0	16.7	5.2	46.8
Subtotal			204.1	144.0	337.2	294.4	214.7	990.2
<i>WIND</i>								
Baie-des-Sables ("BDS")	Hydro-Québec	2026	41.6	35.7	25.0	18.6	34.1	113.4
L'Anse-à-Valleau ("AAV")	Hydro-Québec	2027	38.2	38.2	22.9	16.5	35.7	113.2
Carleton ("CAR")	Hydro-Québec	2028	41.6	38.1	28.2	24.1	39.0	129.4
Subtotal			121.4	112.0	76.0	59.2	108.8	356.0
Total		17.2 years <sup>7</sup>	325.5	255.9	413.2	353.7	323.4	1,346.2

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

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

3. Ontario Power Authority.

4. Ontario Electricity Financial Corporation.

5. British Columbia Hydro and Power Authority.

6. Idaho Power Company.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### QUARTERLY AND YEAR-TO-DATE UPDATES

Highlights	Three-month period ended Sept. 30, 2010	Three-month period ended Sept. 30, 2009	Nine-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2009
	\$	\$	\$	\$
Power generated (MW-hr)	356,262	223,302	883,681	634,978
Gross operating revenues	24,716	14,982	63,091	45,442
EBITDA	19,754	11,920	49,229	36,565
Net (loss) earnings	(10,904)	2,834	(17,927)	19,206
Adjusted cash flows from operating activities	13,606	8,375	35,953	25,553
Adjusted cash flows from operating activities (\$ per share - basic)	0.23	0.20	0.66	0.60
Dividends declared	8,632	7,352	24,691	22,053
Dividends declared (\$ per share)	0.145	0.171	0.462	0.514

#### Adjusted Net Earnings

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

Adjusted Net Earnings	Three-month period ended Sept. 30, 2010	Three-month period ended Sept. 30, 2009	Nine-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2009
	\$	\$	\$	\$
Net (loss) earnings	(10,904)	2,834	(17,927)	19,206
Add (deduct):				
Non-cash expense related to royalty agreement	-	-	983	-
Unrealized net loss (gain) on derivative financial instruments	20,098	793	36,240	(10,978)
Unrealized foreign exchange gain	(8)	(162)	(6)	(298)
Associated future income taxes	(5,424)	(700)	(10,049)	2,012
Adjusted net earnings	3,762	2,765	9,241	9,942
Adjusted net earnings (\$ per share – basic)	0.06	0.06	0.17	0.23

Unrealized 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 as long as 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.

#### Financing Activities

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

On September 14, 2010, the Corporation issued a total of 3,400,000 cumulative rate reset preferred shares, Series A (the "Series A Preferred Shares") at \$25.00 per share for aggregate gross proceeds of \$85.0 million. The Series A Preferred Shares are traded on the TSX under the symbol INE.PR.A. For more details about this issuance, please refer to the "Preferred Shares" section of this MD&A.

On September 30, 2010, the Corporation amended the BDS Facility, thereby converting this \$52.6 million credit facility from a term loan to a revolving credit facility (the "BDS Revolving Credit Facility"). This enhances the Corporation's cash management flexibility.

### Commissioning Activities

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

Operating Facilities Commissioned During the Last Twelve Months								
Project name and location	Installed capacity (MW)	Estimated long-term average production (GW-hr)	Total construction costs		Commercial in-service date ("COD")		Expected year-one	
			Estimated (\$M)	Actual as at Sept. 30, 2010 (\$M)	Original estimate	Actual	Revenues (\$M)	EBITDA (\$M)
<i>HYDRO</i>								
Ashlu Creek, BC	49.9	265.0	138.0	138.7	Q2 2009	Q4 2009	18.4	15.7
Fitzsimmons Creek, BC <sup>1</sup>	7.5	33.0	33.2	31.6	Q4 2010	Q1 2010	3.2	2.4

1. The Corporation owns 66 ⅔% of this project

#### *Ashlu Creek*

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

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

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

On July 9, 2010, the Corporation converted the non-recourse construction loan to a term loan maturing in 2025. The loan is secured by the Ashlu Creek hydroelectric facility and the first principal payment was made on September 30, 2010.

#### *Fitzsimmons Creek*

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### Development Projects

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

#### Development Projects (under construction)

Project name and location	Installed capacity (MW)	Estimated long-term average production (GW-hr)	Total construction costs		Expected COD	Expected year-one	
			Estimated (\$M)	Actual as at Sept.30, 2010 (\$M)		Revenues (\$M)	EBITDA (\$M)
<i>WIND</i>							
Montagne-Sèche, QC <sup>1</sup>	58.5	193.4	103.0	7.1 <sup>2</sup>	Q4 2011	4.8 <sup>2</sup>	4.3 <sup>2</sup>
Gros-Morne – Phase I, QC <sup>1</sup>	100.5	308.9	348.5	18.4 <sup>2</sup>	Q4 2011	7.8 <sup>2</sup>	6.9 <sup>2</sup>
Gros-Morne – Phase II, QC <sup>1</sup>	111.0	341.1	for both phases	for both phases	Q4 2012	8.6 <sup>2</sup>	7.5 <sup>2</sup>

1. The Corporation owns 38% of this project.

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

#### *Montagne-Sèche*

On June 1, 2010, Innergex issued a notice to proceed to the turbine supplier and the balance-of-plant contractor, thereby launching the construction phase of this wind farm. At the end of the third quarter of 2010, more than 20% of the roads were built, site preparation for the substation was completed and pouring of concrete for the foundations had started. During the next quarter, road building and pouring of concrete for the foundations will continue and the erection of the substation will begin.

In the second quarter of 2010, the Corporation received a term-sheet offer from a lender to secure the long-term debt financing for the 58.5 MW Montagne-Sèche project. Based on the project's disbursement schedule, no draws under the debt facility will be required before mid-2011. In view of the improving conditions in the project-financing market, Innergex has deliberately decided to wait until late 2010 before entering into a credit agreement with the lender. Innergex expects the Montagne-Sèche project to be completed by December 1, 2011.

#### *Gros-Morne, Phase I and II*

On June 1, 2010, Innergex issued a notice to proceed to the turbine supplier and the balance-of-plant contractor, thereby launching the construction phase of these two wind farms. At the end of the third quarter of 2010, more than 50% of roads were built, site preparation for the substation was completed and pouring of concrete for the foundations was under way. During the next quarter, road building and pouring of concrete for the foundations will continue and the erection of the substation will begin.

In the second quarter of 2010, the Corporation received a term-sheet offer from a syndicate of lenders to secure the long-term debt financing for these projects. Following the issuance of the Series A Preferred Shares, Innergex has elected to finance these projects with cash on hand and its revolving credit facilities totalling \$170 million. 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

<b>Development Projects (permit phase)</b>				
Project name and location	Installed capacity (MW)	Total construction costs		
		Estimated (\$M)	Actual as at Sept. 30, 2010 (\$M)	Expected COD
<i>HYDRO</i>				
Kwoiek Creek, BC <sup>1</sup>	49.9	152.1	10.7	2013
Boulder Creek, BC <sup>2</sup>	23.0	84.0	0.1	2015
North Creek, BC <sup>2</sup>	16.0	71.0	0.3	2016
Upper Lillooet, BC <sup>2</sup>	74.0	260.0	2.0	2016

1. The Corporation owns 50% of this project.

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

### *Kwoiek Creek*

The Corporation expects to issue a limited notice to proceed to the engineering, procurement and construction contractor before the end of 2010, thereby launching the construction phase of the 49.9 MW Kwoiek Creek hydroelectric project. Construction of this facility is expected to be completed in 2013.

### *Boulder Creek, North Creek and Upper Lillooet*

On March 11, 2010, BC Hydro announced that the Boulder Creek, North Creek and Upper Lillooet hydroelectric projects, totalling 113 MW and submitted under the 2008 BC Hydro Clean Power Call RFP had been selected for PPA awards, subject to the British Columbia Utilities Commission's approval. On June 3, 2010, the BC government's Clean Energy Act was passed by the BC Legislature, thereby approving these three PPAs. The PPAs have allowed the Corporation to enter the development phase. Current activities are focused around 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. The Corporation has a 66 ⅔% ownership interest in these three new Development Projects.

### **Prospective Projects**

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### OPERATING RESULTS

The Corporation's operating results for the three and nine-month periods ended September 30, 2010, are compared with the operating results for the same periods in 2009. As a result of the Combination, per Canadian GAAP, the operations of the Pre-Combination Innergex have been accounted for in the Corporation's results since March 30, 2010.

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

#### Production

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

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

Production	Operating period July 1 to September 30, 2010		Operating period July 1 to September 30, 2009	
	Production (MW-hr)	Long-term average (MW-hr)	Production (MW-hr)	Long-term average (MW-hr)
<i>HYDRO</i>				
Saint-Paulin	2,410	8,038	10,147	8,038
Windsor	6,840	5,628	6,869	5,628
Chaudière	15,043	17,642	27,024	17,642
Portneuf-1	11,645	11,525	11,811	11,525
Portneuf-2	19,474	19,264	19,734	19,264
Portneuf-3	12,043	11,913	12,196	11,913
Montmagny	823	1,044	1,418	1,044
Glen Miller	9,367	4,513	7,695	4,513
Umbata Falls <sup>1</sup>	4,496	10,444	17,200	10,444
Batawa	6,934	3,720	6,208	3,720
Rutherford Creek	77,953	80,000	72,102	80,000
Ashlu Creek	96,382	95,135	-	-
Fitzsimmons Creek <sup>2</sup>	8,311	8,881	-	-
Horseshoe Bend	15,419	16,694	16,564	16,694
<b>Subtotal</b>	<b>287,140</b>	<b>294,441</b>	<b>208,968</b>	<b>190,425</b>
<i>WIND</i>				
Baie-des-Sables <sup>3</sup>	20,200	18,591	19,128	18,591
L'Anse-à-Valleau <sup>3</sup>	20,339	16,533	20,101	16,533
Carleton <sup>3</sup>	24,427	24,106	24,261	24,106
<b>Subtotal</b>	<b>64,966</b>	<b>59,230</b>	<b>63,490</b>	<b>59,230</b>
<b>Total</b>	<b>352,106</b>	<b>353,671</b>	<b>272,458</b>	<b>249,655</b>

1. Representing the Corporation's 49% interest in this facility.

2. Representing the Corporation's 66% interest in this facility. Based on an interest of 100%, the production was 12,467 MW-hr and the long-term average is 13,321 MW-hr.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

The Corporation's facilities produced 352,106 MW-hr in the third quarter of 2010, less than 1% below the long-term average of 353,671 MW-hr. This production level is due mainly to:

- hydrologic conditions lower than the long-term average at the Saint-Paulin, Chaudière and Umbata Falls facilities.

These conditions were partially offset by:

- hydrologic conditions higher than the long-term average at the Windsor, Glen Miller and Batawa facilities; and
- wind conditions higher than the long-term average at the BDS and AAV wind farms.

Production	Operating period January 1 to September 30, 2010		Operating period January 1 to September 30, 2009	
	Production (MW-hr)	Long-term average (MW-hr)	Production (MW-hr)	Long-term average (MW-hr)
<i>HYDRO</i>				
Saint-Paulin	23,228	31,004	37,147	31,004
Windsor	27,907	23,121	26,914	23,121
Chaudière	81,437	84,468	105,148	84,468
Portneuf-1	31,602	30,676	29,292	30,676
Portneuf-2	50,858	49,358	47,776	49,358
Portneuf-3	32,735	31,936	30,261	31,936
Montmagny	4,898	5,718	5,407	5,718
Glen Miller <sup>1</sup>	32,230	29,864	35,414	29,864
Umbata Falls <sup>1,2</sup>	18,185	37,272	41,449	37,272
Batawa	26,222	23,468	28,415	23,468
Rutherford Creek	149,280	154,700	127,479	154,700
Ashlu Creek <sup>1</sup>	203,971	214,003	-	-
Fitzsimmons Creek <sup>3,4</sup>	12,640	17,121	-	-
Horseshoe Bend	33,812	41,577	40,106	41,577
<b>Subtotal</b>	<b>729,005</b>	<b>774,286</b>	<b>554,808</b>	<b>543,162</b>
<i>WIND</i>				
Baie-des-Sables <sup>5</sup>	68,831	79,250	77,985	79,250
L'Anse-à-Valleau <sup>5</sup>	74,262	77,581	79,048	77,581
Carleton <sup>1,5</sup>	87,928	90,397	95,796	90,397
<b>Subtotal</b>	<b>231,021</b>	<b>247,228</b>	<b>252,829</b>	<b>247,228</b>
<b>Total</b>	<b>960,026</b>	<b>1,021,514</b>	<b>807,637</b>	<b>790,390</b>

1. Adjusted to include the full nine-month period.

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

3. Representing the Corporation's 66% interest in this facility. Based on an interest of 100%, the production was 18,960 MW-hr and the long-term average is 25,682 MW-hr.

4. Adjusted for the period during which the facility was in commercial operation as commissioning occurred on January 26, 2010.

5. Representing the Corporation's 38% interest in this wind farm.

During the nine-month period ended September 30, 2010, the Corporation's facilities produced 960,026 MW-hr, 6% less than the long-term average of 1,021,514 MW-hr. This production level is due mainly to:

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

These shortfalls were partially offset by favourable hydrologic conditions at the Windsor, Glen Miller and Batawa facilities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

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

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

Operating Results	Three-month	Three-month	Nine-month	Nine-month
	period ended Sept. 30, 2010	period ended Sept. 30, 2009	period ended Sept. 30, 2010	period ended Sept. 30, 2009
	\$	\$	\$	\$
Gross operating revenues	24,716	14,982	63,091	45,442
Operating expenses	3,299	2,178	8,451	6,182
Stock-based compensation	126	-	203	-
General and administrative expenses	1,097	884	4,006	2,695
Prospective projects expenses	440	-	1,202	-
EBITDA	19,754	11,920	49,229	36,565
Interest on long-term debt and convertible debentures	6,373	3,318	16,256	9,965
Realized net gain on derivative financial instruments	-	-	(555)	-
Realized foreign exchange gain	(49)	(105)	(26)	(160)
Other net revenues	(11)	(35)	(10)	(101)
Depreciation and amortization	8,555	5,330	22,621	15,998
Unrealized net loss (gain) on derivative financial instruments	20,098	793	36,240	(10,978)
Expense related to royalty agreement	-	-	983	-
Unrealized foreign exchange loss (gain)	(8)	(162)	(6)	(298)
(Recovery of) Provision for income taxes	(4,300)	(53)	(8,347)	2,933
Net (loss) earnings	(10,904)	2,834	(17,927)	19,206

### Revenues

The Corporation recorded gross operating revenues of \$24.7 million during the third quarter of 2010 (\$15.0 million in 2009). This performance is due to additional revenues resulting from the Combination (\$10.7 million), partly offset by lower revenues from the pre-combination assets of the Fund (negative impact of \$1.0 million).

For the nine-month period ended September 30, 2010, the Corporation recorded gross operating revenues of \$63.1 million (\$45.4 million in 2009). This performance is due mainly to additional revenues resulting from the Combination (\$19.7 million), partly offset by lower revenues from the pre-combination assets of the Fund (negative impact of \$2.0 million). As specified earlier in this MD&A, revenues from the assets of the Pre-Combination Innergex have been included as of March 30, 2010.

### Expenses

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

In the third quarter of 2010, the Corporation recorded \$3.3 million in operating expenses related to the operation of the power producing facilities (\$2.2 million in 2009). This increase was expected and is the result of the Combination which means that the Corporation operated a greater number of facilities in 2010 than in 2009. This situation also explains the increase in operating expenses for the nine-month period ended September 30, 2010, when the Corporation recorded \$8.5 million in operating expenses (\$6.2 million in 2009).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

Stock-based compensation relates to the amortization of the fair value of options granted concurrently with the Initial Public Offering of the Pre-Combination Innergex in December 2007 and also granted in June 2010 under the new corporate structure. Non-cash stock-based compensation was \$0.1 million and \$0.2 million respectively for the three and nine-month periods ended September 30, 2010 (nil in 2009).

General and administrative expenses totalled \$1.1 million and \$4.0 million respectively for the three and nine-month periods ended September 30, 2010 (\$0.9 million and \$2.7 million respectively in 2009). These increases are due to the larger scale of the Corporation resulting from the Combination.

Prospective project expenses include the costs incurred for the development of Prospective Projects. Prior to the Combination, such expenses were not incurred by the Fund. Accordingly, prospective projects expenses totalled \$0.4 million and \$1.2 million respectively for the three and nine-month periods ended September 30, 2010 (nil in 2009).

### Interest on Long-Term Debt and Convertible Debentures

The Corporation incurred \$6.4 million in interest expenses in the third quarter of 2010 (\$3.3 million in 2009). This variation is due to the issuance of Convertible Debentures and the increase in long-term debt resulting from the Combination.

For the nine-month period ended September 30, 2010, interest expenses rose to \$16.3 million (\$10.0 million in 2009). This variation is due to the issuance of Convertible Debentures, to the increase in long-term debt resulting from the Combination and to a writeoff of \$0.6 million of deferred financial costs for the refinancing of the Fund's bank credit facility.

As at September 30, 2010, all of the Corporation's actual debt, including Convertible Debentures and part of its future planned drawings, was fixed or hedged against interest rate movements (92% as at September 30, 2009). As such, the effective all-in interest rate on the Corporation's debt and Convertible Debentures was 6.02% as at that date (5.62% as at September 30, 2009). The increase stems from the Combination and from the swap related to the Ashlu long-term debt taking effect on September 30, 2010. Please see the "Derivative Financial Instruments and Risk Management" section for more information.

### Derivative Financial Instruments

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

For the quarter ended September 30, 2010, the Corporation did not record any realized gain or loss on derivative financial instruments (idem in 2009). For the nine-month period ended September 30, 2010, the Corporation recorded a \$0.6 million realized gain on derivative financial instruments (nil in 2009) due to the settlement on April 29, 2010, of a \$110.0 million forward-starting amortizing interest rate swap related to the Ashlu Creek facility.

The Corporation recorded a \$20.1 million unrealized net loss on derivative financial instruments in the third quarter of 2010 (\$0.8 million in 2009) due mainly to the decrease in benchmark interest rates for long-term maturities since the end of the second quarter of 2010. This loss had no cash impact on the Corporation's results.

For the nine-month period ended September 30, 2010, the Corporation recorded a \$36.2 million unrealized net loss on derivative financial instruments (unrealized net gain of \$11.0 million in 2009) due mainly to the decrease in benchmark interest rates for long-term maturities since the end of 2009. This loss had no cash impact on the Corporation's results.

### Depreciation and Amortization

For the three and nine-month periods ended September 30, 2010, depreciation and amortization expenses totalled \$8.6 million and \$22.6 million respectively (\$5.3 million and \$16.0 million respectively in 2009). The differences are attributable to the greater asset base resulting from the Combination and to the amortization of the extended warranty of the AAV wind farm, which became effective in December 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### Expense Related to Royalty Agreement

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

### Provision for Income Taxes

For the three and nine-month periods ended September 30, 2010, Innergex recorded income tax recoveries of \$4.3 million and \$8.3 million respectively mainly as a result of the unrealized net losses on derivative financial instruments (income tax recovery of \$0.1 million and income tax provision of \$2.9 million respectively in 2009). Prior to the Combination, the Fund's income trust structure minimized income taxes. As a result of the Combination and the Fund's conversion to a corporation, Innergex is now taxable, although it can take advantage of the Pre-Combination Innergex's large pool of tax bases and the resulting substantial available unused capital cost allowance to minimize current income taxes.

### Net Earnings

The Corporation recorded a net loss and comprehensive loss of \$10.9 million (basic and diluted net loss of \$0.19 per share) in the third quarter of 2010. For the corresponding period of 2009, Innergex recorded net earnings and comprehensive earnings of \$2.8 million (basic and diluted net earnings of \$0.07 per share). This variation is attributable mainly to:

- a \$7.8 million increase in EBITDA; and
- a \$4.2 million favourable variation in income tax.

These were more than offset by:

- a \$3.1 million increase in interest on long-term debt and convertible debentures;
- a \$3.2 million increase in depreciation and amortization; and
- a \$19.3 million negative variation in the fair market value of derivative financial instruments.

For the nine-month period ended September 30, 2010, the Corporation recorded a net loss and comprehensive loss of \$17.9 million (basic and diluted net loss of \$0.33 per share). For the corresponding period of 2009, Innergex recorded net earnings and comprehensive earnings of \$19.2 million (basic and diluted net earnings of \$0.45 per share). This variation is attributable mainly to:

- a \$12.7 million increase in EBITDA; and
- a \$11.3 million favourable variation in income tax.

These were more than offset by:

- a \$6.3 million increase in interest on long-term debt and convertible debentures;
- a \$6.6 million increase in depreciation and amortization;
- a \$47.2 million negative variation in the fair market value of derivative financial instruments; and
- a \$1.0 million expense related to royalty agreement.

The basic and diluted per-share figures for the three and nine month periods ended September 30, 2010, are based on a weighted average number of 59,532,606 and 54,180,928 common shares outstanding respectively. As per Canadian GAAP, all stock options were non-dilutive during the periods concerned. For 1,034,000 options, the average market price of the Corporation's common share was below the strike price. For the other 808,024 options, their inclusion would have resulted in a lower loss per common share amount. Convertible Debentures were also non-dilutive. For the corresponding periods ended September 30, 2009, per-share figures were based on a weighted average number of 42,930,243 common shares outstanding. No Convertible Debentures or options were outstanding during these periods of 2009.

As at September 30, 2010, the Corporation had a total of 59,532,606 common shares, 80,500 Convertible Debentures, 3,400,000 Series A Preferred Shares and 1,842,024 stock options outstanding. As at December 31, 2009, it had 42,930,243 common shares outstanding.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Flows from Operating Activities

The cash flows generated by operating activities totalled \$15.4 million during the third quarter of 2010 (\$10.3 million in 2009). This difference is due primarily to the \$7.8 million increase in EBITDA, partly offset by the \$3.1 million increase in interest on long-term debt and convertible debentures.

For the nine-month period ended September 30, 2010, cash flows generated by operating activities totalled \$12.5 million (\$30.0 million in 2009). This difference is due primarily to the \$27.3 million decrease in the variation of non-cash working capital items and to the \$6.3 million increase in interest on long-term debt and convertible debentures, partly offset by the \$12.7 million increase in EBITDA. The variation in non-cash working capital items stems mainly from the Combination which resulted in negative impacts from increases in accounts receivable (\$6.6 million) and prepaid and others (\$3.1 million) and a decrease in accounts payable and accrued liabilities (\$17.5 million) compared with the same period of 2009.

#### Cash Flows from Financing Activities

Cash flows generated by financing activities totalled \$17.9 million in the third quarter of 2010 (\$8.0 million used in 2009). This results from the issuance of the Series A Preferred Shares for net proceeds of \$82.3 million (nil in 2009) and a \$26.1 million increase in long-term debt (nil in 2009). These factors were partially offset by \$81.7 million in repayments of long-term debt (\$0.6 million in 2009) and \$8.8 million in dividends paid to shareholders (\$7.4 million in distributions paid to former unitholders in 2009).

For the nine-month period ended September 30, 2010, cash flows used by financing activities totalled \$36.9 million (\$24.0 million in 2009). This results from the issuance of the Series A Preferred Shares for net proceeds of \$82.3 million (nil in 2009), net repayments in long-term debt of \$87.8 million (\$1.9 million in 2009), a \$12.9 million repayment of the bank loan (nil in 2009), \$8.8 million in dividends paid to shareholders and \$9.7 million in distributions paid to former unitholders (\$22.1 million in 2009).

The \$87.8 million net decrease in long-term debt (net of deferred financing fees) stems from the issuance of the Series A Preferred Shares, the Combination and the refinancing of the Fund's bank credit facility and facilities 1, 2 and 3 and of the Pre-Combination Innergex's revolving credit facility. For more details about this refinancing, please refer to the "Use of Financing Proceeds" and "Long-Term Debt" sections of this MD&A.

#### Cash Flows from Investing Activities

The Corporation's cash flows from investing activities for the quarter ended September 30, 2010, corresponded to total net cash outflows of \$22.0 million (inflows of \$0.7 million in 2009). Cash acquired concurrently with the Combination accounted for a \$1.7 million outflow. For the corresponding period of 2009, net cash related to business acquisition accounted for an inflow of \$0.6 million. During the third quarter of 2010, net additions to property, plant and equipment also accounted for a \$17.8 million outflow (\$0.1 million in 2009), additions to project development costs for a \$1.0 million outflow (nil in 2009), increases in a short-term loan to a partner for a \$1.0 million outflow (nil in 2009) and net investments in the reserves accounted for a \$0.3 million outflow (inflow of \$0.2 million in 2009).

For the nine-month period ended September 30, 2010, the Corporation's cash flows from investing activities represented total net cash inflows of \$52.8 million (outflows of \$1.6 million in 2009). Cash acquired concurrently with the Combination accounted for an \$83.1 million inflow. For the corresponding period of 2009, net cash related to business acquisition accounted for a \$0.6 million inflow. During the first three quarters of 2010, net additions to property, plant and equipment also accounted for a \$19.6 million outflow (\$1.8 million in 2009), additions to project development costs for a \$7.4 million outflow (nil in 2009), increases in short-term loan to a partner for a \$1.0 million outflow (nil in 2009) and net investments in the reserves accounted for a \$1.9 million outflow (\$0.5 million in 2009).

#### Cash and Cash Equivalents

For the third quarter of 2010, the Corporation generated \$11.3 million in cash and cash equivalents (\$3.1 million in 2009), mainly as a result of the issuance of the Series A Preferred Shares.

For the nine-month period ended September 30, 2010, the Corporation generated \$28.4 million in cash and cash equivalents (\$4.4 million in 2009), mainly as a result of the Combination and the issuance of the Series A Preferred Shares.

As at September 30, 2010, the Corporation had cash and cash equivalents amounting to \$37.7 million (\$13.1 million as at September 30, 2009).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### Dividends to Preferred Shareholders

On November 8, 2010, the Corporation declared a dividend of \$0.42123 per preferred share payable on January 17, 2011, to preferred shareholders of record at the close of business on December 31, 2010.

### Dividends to Common Shareholders

On August 12, 2010, the Corporation declared a dividend of \$0.1450 per common share payable on October 15, 2010, to common shareholders of record at the close of business on September 30, 2010.

On November 8, 2010, the Corporation declared a dividend of \$0.1450 per common share payable on January 17, 2011, to common shareholders of record at the close of business on December 31, 2010.

### Use of Financing Proceeds

Use of Financing Proceeds	Three-month	Three-month	Nine-month	Nine-month
	period ended	period ended	period ended	period ended
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 30, 2009
	\$	\$	\$	\$
Proceeds from issuance of preferred shares	85,000		85,000	
Proceeds from issuance of long-term debt	26,100	-	116,820	-
Financing proceeds	111,100	-	201,820	-
Business acquisition, net of cash acquired:				
IHI Hydro Inc.	-	636	-	636
Pre-Combination Innergex	(1,673)	-	83,131	-
Additions to property, plant and equipment	(18,108)	(101)	(19,923)	(1,804)
Additions to intangible assets	(199)	-	(267)	-
Additions to project developments costs	(950)	-	(7,407)	-
Additions to other long-term assets	(18)	-	(96)	-
Short-term loan to a partner	(1,000)	-	(1,000)	-
Funds invested in the hydrology reserve				
funded from long-term debt	-	-	(2,016)	-
Refinancing of long-term debt	-	-	(119,806)	-
Financing and issuance fees	(2,697)	-	(4,411)	-
Cancellation of revolving credit facility	-	-	(12,900)	-
Long-term debt repayment	(81,679)	(647)	(83,111)	(1,906)
Use of financing proceeds	(106,324)	(112)	(167,806)	(3,074)
Contribution to (reduction of) working capital	4,776	(112)	34,014	(3,074)

In the third quarter of 2010, the Corporation issued the Series A Preferred Shares for aggregate gross proceeds of \$85.0 million. For more details about this issuance, please refer to the "Preferred Shares" section of this MD&A. The Corporation also borrowed \$26.1 million during this quarter. These proceeds were mainly used to finance the ongoing construction and development of power generating projects (total of \$18.1 million) and to repay long-term debt (\$81.7 million). During the corresponding quarter of 2009, the purchase price for IHI Hydro Inc. was adjusted by \$0.6 million, \$0.1 million was invested in property, plant and equipment and \$0.6 million was used to repay long-term debt.

During the nine-month period ended September 30, 2010, the Corporation issued the Series A Preferred Shares for aggregate gross proceeds of \$85.0 million and borrowed \$116.8 million. These proceeds were mainly used to finance the ongoing construction and development of power generating projects (total of \$27.7 million), to fund the hydrology reserve of the Ashlu Creek facility (\$2.0 million) and to repay long-term debt (\$83.1 million).

As part of the Combination, the Corporation refinanced the Fund's bank credit facility and facilities 1, 2 and 3 of which \$119.8 million was drawn and cancelled its revolving credit facility of which \$12.9 million was drawn by putting in place the Operating Credit Facility (commitment of \$117.4 million) and the BDS Facility (commitment of \$52.6 million) for a total amount of \$170.0 million. The Corporation used the net cash acquired from the Pre-Combination Innergex of \$83.1 million to reduce drawings.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

During the nine-month period ended September 30, 2009, the purchase price for IHI Hydro Inc. was adjusted by \$0.6 million. The Corporation also invested \$1.8 million in property, plant and equipment and repaid \$1.9 million in long-term debt.

### FINANCIAL POSITION

#### Assets

As at September 30, 2010, the Corporation had \$913.7 million in total assets (\$508.1 million as at December 31, 2009). This increase results from the Combination. The following items were the most affected by the Combination:

- property, plant and equipment increased from \$334.2 million to \$608.9 million; and
- intangible assets increased from \$119.4 million to \$179.3 million.

#### Working Capital

As at the end of the third quarter of 2010, working capital was positive at \$14.1 million with a working capital ratio of 1.30:1.00. As at the end of 2009, working capital was negative at \$0.7 million with a working capital ratio of 0.97:1. The improvement in the working capital ratio over the last nine months stems mainly from an increase in cash and cash equivalents due to the issuance of the Series A Preferred Shares and Convertible Debentures and from an increase in accounts receivable. These two items are partly offset by increases in accounts payable and accrued liabilities, in dividends payable to shareholders and in the current portion of the long-term debt resulting from the Combination.

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 Operating Credit Facility and its BDS Revolving Credit Facility. As at September 30, 2010, US\$13.9 million and \$10.0 million of these credit facilities had been drawn as cash advances and \$20.0 million had been used for issuing letters of credit. The combined unused and available portion of the Operating Credit Facility and BDS Revolving Credit Facility was therefore \$125.6 million as at that date.

Accounts receivable increased from \$6.2 million as at December 31, 2009, to \$13.8 million as at September 30, 2010, as a result of the Combination.

Accounts payable and accrued liabilities increased from \$9.6 million as at December 31, 2009, to \$19.9 million as at the end of the third quarter of 2010 due to the Combination. They are comprised mainly of trade payables and holdbacks related to the Montagne-Sèche, Gros-Morne, Ashlu Creek, Fitzsimmons Creek and Carleton projects.

Derivative financial instruments included in current liabilities increased from \$5.4 million as at December 31, 2009, to \$8.9 million as at September 30, 2010. This variation is due mainly to the Combination.

The current portion of long-term debt totalling \$9.2 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

For the three and nine-month periods ended September 30, 2010

### Reserve Accounts

Reserve Accounts Breakdown	September 30, 2010	December 31, 2009
	\$	\$
Levelization reserve	494	1,064
Hydrology/wind power reserve	16,838	10,598
Major maintenance reserve	4,128	3,728
Total	21,460	15,390

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

- 1) The Levelization reserve, which was established to level the monetary contribution from the power plants in order to pay dividends.
- 2) The Hydrology/wind power reserve established at the start of commercial operations at a facility to compensate for the variability of cash flows related to fluctuations in hydrology or wind conditions or other unpredictable events. The amounts in this reserve are expected to vary from quarter to quarter according to the seasonality of cash flows. The increase in this reserve since December 31, 2009, stems mainly from the Combination and from the initial funding of the Ashlu Creek facility's hydrology reserve during the second quarter of 2010 (\$2.0 million).
- 3) The Major maintenance reserve established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity.

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

### Property, Plant and Equipment

Property, plant and equipment are comprised mainly of hydroelectric and wind farm projects that are either in operation or under construction. They are recorded at cost and depreciated using the straight-line method based on their estimated useful lives upon commissioning. The Corporation had \$608.9 million in property, plant and equipment as at September 30, 2010, compared with \$334.2 million as at December 31, 2009. This increase stems mainly from the Combination.

### Intangible Assets

Intangible assets consist of various permits, licences and agreements. They also include the extended warranty for the BDS, AAV and CAR wind farm turbines. The Corporation reported \$179.3 million in intangible assets as at September 30, 2010, an increase from the \$119.4 million reported as at December 31, 2009; this increase results from the Combination. Intangible assets, excluding \$4.0 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. The wind farms' extended warranty is amortized using the straight-line method over the three-year extended warranty period.

### Project Development Costs

Project development costs are the costs incurred to acquire and develop Development Projects that have a PPA as well as the costs to acquire Prospective Projects. Depending on their nature, these costs are transferred either to property, plant and equipment or to intangible assets once the project reaches the construction phase. As at September 30, 2010, the Corporation had \$15.7 million in project development costs (nil as at December 31, 2009). Prior to the Combination, the Fund had no development activities and so did not incur any project development costs.

### Goodwill

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### Long-Term Debt

As at September 30, 2010, long-term debt was \$344.3 million (\$224.6 million as at December 31, 2009). The increase in long-term debt results mainly from the Combination, the construction of the Montagne-Sèche and Gros-Morne wind farms and the payment of holdbacks for the Ashlu Creek project.

Long-Term Debt	September 30, 2010	December 31, 2009
	\$	\$
<b>Operating Credit Facility (i)</b>		
Bankers' acceptances renewable until March 2013	-	-
LIBOR advances, US\$13,900 renewable until March 2013	14,303	-
<b>BDS Revolving Credit Facility (ii)</b>		
Prime-rate advances renewable until March 2013	-	-
Bankers' acceptances renewable until March 2013	10,000	-
<b>Facility 1</b>		
Prime-rate advances renewable until May 2013	-	93
Bankers' acceptances renewable until May 2013	-	51,200
LIBOR advances, US\$5,000 renewable until May 2013	-	5,255
<b>Facility 2</b>		
LIBOR advances, US\$8,873 renewable until May 2013	-	9,325
<b>Facility 3</b>		
Bankers' acceptances renewable until May 2013	-	52,600
<b>Term loans</b>		
Hydro-Windsor, fixed rate term loan maturing in 2016 (iii)	6,034	6,590
Rutherford Creek, fixed rate term loan maturing in 2024 (iv)	50,000	50,000
AAV, floating-rate term loan maturing in 2026 (v)	48,447	50,067
Glen Miller, floating-rate term loan maturing in 2013 (vi)	14,750	-
Umbata Falls, floating-rate term loan maturing in 2014 (vii)	24,459	-
CAR, floating-rate term loan maturing in 2013 (viii)	50,180	-
Ashlu Creek, floating-rate term loan (ix)	104,821	-
Fitzsimmons Creek, floating-rate construction loan (x)	22,566	-
Kwoiek Creek, fixed rate subordinated term loan (xi)	150	-
<b>Deferred financing costs</b>	<b>(1,460)</b>	<b>(569)</b>
	344,250	224,561
<b>Current portion of long-term debt</b>	<b>(9,163)</b>	<b>(2,758)</b>
	335,087	221,803

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

On September 30, 2010, the Corporation amended the BDS Facility, thereby converting this \$52.6 million credit facility from a term loan to a revolving credit facility.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

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

- i) a \$117.4 million revolving credit facility secured by a first-ranking hypothec on Innergex assets and by various security interests granted by some of its subsidiaries. The facility will mature in 2013 and is not amortized. Advances are made in the form of bankers' acceptances ("BA"), prime-rate advances, US base-rate advances, LIBOR advances or letters of credit. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of consolidated senior debt to adjusted EBITDA. As at September 30, 2010, \$14.3 million was due under this facility and an amount of \$20.0 million was used for the issuance of letters of credit. Thus the unused and available portion of the Operating Credit Facility totalled \$83.0 million. Also as at September 30, 2010, the all-in interest rate was 3.28% on \$14.3 million of LIBOR advances;
- ii) a \$52.6 million revolving credit facility guaranteed by a security interest granted by Innergex, and the Corporation's 38% interest in the BDS wind farm. The facility will mature in 2013 and is not amortized. Advances are made in the form of BA, prime-rate advances, US 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 September 30, 2010, \$10.0 million was due under this facility thus, the unused and available portion of the BDS Revolving Credit Facility totalled \$42.6 million. Also as at September 30, 2010, the all-in interest rate was 7.02% after accounting for the interest rate swap;
- iii) as part of the acquisition of Hydro-Windsor hydroelectric facility in 2004, the Corporation assumed an \$8.3 million debt bearing interest at a fixed rate of 11.7% until its maturity date in December 2016. This debt was accounted for at its fair market value of \$9.9 million as at April 27, 2004, at an effective fixed interest rate of 8.25%; it is repayable by monthly blended payments of principal and interest totalling \$105,399. This debt is secured by the Hydro-Windsor hydroelectric facility;
- iv) as part of the acquisition of the Rutherford Creek hydroelectric facility in 2005, the Corporation assumed a \$50.0 million debt bearing interest at a fixed rate of 6.88% until its maturity date in June 2024. This debt is secured by the Rutherford Creek hydroelectric facility. It is repayable in monthly blended payments of principal and interest totalling \$510,916 starting July 1, 2012;
- v) as part of the acquisition of a 38% interest in the AAV wind farm in 2007, the Corporation assumed a \$54.5 million debt maturing in 2026. It is secured by the Corporation's 38% interest in the AAV wind farm. This debt is repayable in quarterly instalments increasing from \$0.5 million in 2010 to \$1.2 million in 2026 based on a specific amortization schedule. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2010, the all-in interest rate was 5.93% after accounting for the interest rate swap;
- vi) as part of the Combination, the Corporation assumed a \$15.3 million non-recourse term loan secured by the Glen Miller hydroelectric facility and maturing in 2013. This loan is amortized at the rate of \$250,000 per quarter. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2010, the all-in interest rate was 5.68% after accounting for the interest rate swaps;
- vii) as part of the Combination, the Corporation assumed a \$24.8 million non-recourse term loan (corresponding to the Corporation's 49% ownership interest in this facility) maturing in 2014. It is secured by the Corporation's 49% interest in the Umbata Falls hydroelectric facility. The loan's principal payments are based on a 25-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2010, the all-in interest rate was 5.11% after accounting for the interest rate swap;
- viii) as part of the Combination, the Corporation assumed a \$50.9 million non-recourse term loan maturing in 2013 and secured by the Corporation's 38% interest in the Carleton wind farm. It was accounted for at its fair market value of \$51.7 million as at March 29, 2010. This loan is amortized over an 18.5-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2010, the all-in interest rate was 4.82% after accounting for the interest rate swap;

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

- 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 principal payments began on September 30, 2010, and 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 September 30, 2010, the all-in interest rate was 6.23%.
- x) as part of the Combination, the Corporation assumed a \$17.1 million non-recourse construction loan which was accounted for at its fair market value of \$19.6 million as at March 29, 2010. During the second quarter of 2010, an additional \$3.0 million was drawn under this construction loan. The loan is secured by the Fitzsimmons Creek hydroelectric facility and matures five years after conversion of the construction loan into a term loan. The loan's principal payments will begin on conversion and be based on a 30-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2010, the all-in interest rate was 7.76% after accounting for the interest rate swaps;
- xi) as part of the Combination, the Corporation assumed a \$0.2 million subordinated non-recourse term loan made by the Corporation's partner to Kwoiek Creek Resources Limited Partnership ("KCRLP"), the owner of the Kwoiek Creek hydroelectric project. As per the project agreements, both partners can participate in the financing of the project, the Corporation up to an amount of \$20.0 million and its partner up to an amount of \$3.0 million. The loan bears interests at a rate of 20% during the development phase and 14% during the construction and operating phases. The Corporation's subordinated non-recourse term loan made to KCRLP, which is eliminated in the financial statement consolidation process, amounted to \$9.6 million as at September 30, 2010.

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

### Convertible Debentures

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

The Convertible Debentures bear interest at an annual rate of 5.75% and will mature on April 30, 2017. Each Convertible Debenture is convertible into common shares of the Corporation at the option of the holder at any time prior to the earlier of April 30, 2017, and the Convertible Debenture redemption date specified by the Corporation at a conversion price of \$10.65 per common share (the "Conversion Price"). The Convertible Debentures may not be redeemed by the Corporation on or before April 30, 2013, except in certain limited circumstances following a change of control. After April 30, 2013, and prior to April 30, 2015, the Convertible Debentures may be redeemed by the Corporation in whole or in part from time to time. Such redemption would be done at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given is not less than 125 % of the Conversion Price. On or after April 30, 2015, and prior to April 30, 2017, the Convertible Debentures may be redeemed in whole or in part at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest. Subject to required regulatory approval, the Corporation may, at its option, elect to satisfy its obligation to pay the principal amount of the Convertible Debentures on redemption or at maturity, in whole or in part, through the issuance of freely tradable common shares upon prior notice, by delivering that number of common shares obtained by dividing the principal amount of the Convertible Debentures by 95 % of the current market price. Any accrued or unpaid interest will be paid in cash.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### 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 to, but excluding January 15, 2016, (the "Initial Fixed Rate Period"), the holders of Series A Preferred Shares will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Corporation's board of directors (the "Board of Directors"). The dividend will be payable quarterly on the 15th day of January, April, July and October in each year at an annual rate equal to \$1.25 per share. The initial dividend of \$0.42123 per share will be payable on January 17, 2011.

For each five-year period after the Initial Fixed Rate Period (each a "Subsequent Fixed Rate Period"), the holders of the Series A Preferred Shares will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board of Directors. The dividend will be payable quarterly in an annual amount per Series A Preferred Share. This annual amount will be equal to the sum of the yield on a Government of Canada bond with a term to maturity of five years on the applicable fixed rate calculation date, plus 2.79%, applicable to such Subsequent Fixed Rate Period multiplied by \$25.00.

Each holder of Series A Preferred Shares will have the right, at its option, to convert all or any of its Series A Preferred Shares into cumulative floating rate preferred shares, Series B (the "Series B Preferred Shares") of the Corporation on the basis of one Series B Preferred Share for each Series A Preferred Share converted, subject to certain conditions, on January 15, 2016, and on January 15 every five years thereafter. The holders of Series B Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board of Directors. The dividend will be payable quarterly in an annual amount per Series B Preferred Share. This annual amount will be equal to the Treasury Bill rate for the preceding quarterly period, plus 2.79% per annum, determined on the 30th day prior to the first day of the applicable quarterly floating rate period multiplied by \$25.00.

The Series A Preferred Shares and the Series B Preferred Shares will not be redeemable by the Corporation prior to January 15, 2016.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### 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 \$393.7 million in actual and planned long-term debt. This figure combined with the \$56.0 million in existing fixed-rate debts and the \$80.5 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	September 30, 2010	December 31, 2009
		\$	\$
Interest rate swaps, rates ranging from 3.96% to 4.09%, expiring in June 2015	None	15,000	15,000
Interest rate swap, 4.27%, expiring in November 2016	None	3,000	3,000
Interest rate swap, 4.41%, expiring in June 2018	March 2013	30,000	30,000
Interest rate swap, 4.27%, expiring in June 2018	March 2013	52,600	52,600
Interest rate swap, 4.93%, amortized until March 2026	None	48,447	50,067
Interest rate swap, 3.45%, amortized until March 2027	December 2013	49,393	-
Forward interest rate swaps, 4.44%, amortized until June 2030	June 2014	23,765	-
Forward interest rate swaps, 4.46%, amortized until June 2031	June 2014	37,460	-
Interest rate swap, 4.11%, amortized until June 2034	None	24,459	-
Interest rate swaps, 4.70%, amortized until June 2035	June 2025	109,537	-
		393,661	150,667

Derivatives had a net negative value of \$45.8 million at the end of the third quarter of 2010 (\$10.2 million at the end of 2009). This variation is due to:

- a decrease in benchmark interest rates for long-term maturities since the end of 2009;
- two new interest rate swaps related to the Ashlu Creek facility that were entered into during the second quarter of 2010; and
- forward interest rate swaps related to the Montagne-Sèche and Gros-Morne wind farms that have been progressively put in place since the second quarter of 2010 and will continue to be so through the end of 2010.

Derivatives are recorded at an estimated credit-adjusted mark-to-market valuation. The Corporation does not use hedge accounting for its Derivatives.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

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

As at September 30, 2010, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at \$10.4 million (\$10.1 million as at December 31, 2009). These instruments represent the value attributed to inflation clauses included in these PPA contracts.

### Future Income Taxes

The tax impact of temporary differences may result in future tax assets or liabilities. As at September 30, 2010, the Corporation's net future income tax liability was \$58.4 million, compared with a net future income tax liability of \$68.3 million as at December 31, 2009. This variation resulted mainly from the Combination and the net loss incurred during the nine-month period ended September 30, 2010.

### Off-Balance-Sheet Arrangements

As at September 30, 2010, the Corporation had issued letters of credit totalling \$24.0 million to meet its obligations under its various PPAs and other agreements. Of this amount, \$20.0 million was issued under its Operating Credit Facility and the remainder under the projects' non-recourse credit facilities. As at that date, Innergex had also issued corporate guarantees to support the construction of the Montagne-Sèche and Gros-Morne wind farms for a total of \$21.1 million.

### Shareholders' Equity

As at September 30, 2010, the shareholders' equity of the Corporation totalled \$343.1 million, compared with \$189.5 million as at December 31, 2009. The difference is attributable mainly to the Combination and to the Series A Preferred Shares issuance.

On August 29, 2010, the 200,000 warrants then outstanding expired. They were exercisable at a strike price of \$12.50 per warrant. Earlier in 2010, in connection with the Combination, their book value was adjusted to their fair value, which was estimated to be nil.

As at November 8, 2010, the Corporation has a total of 59,532,606 common shares, 80,500 Convertible Debentures, 3,400,000 Series A Preferred Shares and 1,842,024 stock options outstanding. As at December 31, 2009, it had 42,930,243 common shares outstanding.

### Contractual Obligations

Expected Contractual Obligations as at September 30, 2010					
Contractual obligations	Total	Under 1 year	1 to 3 years	4 to 5 years	Over 5 years
	\$	\$	\$	\$	\$
Long-term debt including convertible debentures	427,126	9,059	59,191	82,768	276,108
Interest on long-term debt and convertible debentures	215,416	27,440	53,127	42,142	92,707
Operating leases	7,491	314	645	669	5,863
Purchase obligations <sup>1</sup>	131,030	36,329	78,035	1,087	15,579
Other <sup>2</sup>	11,686	1,333	1,899	1,593	6,861
<b>Total contractual obligations</b>	<b>792,749</b>	<b>74,475</b>	<b>192,897</b>	<b>128,259</b>	<b>397,118</b>

1. Purchase obligations are mainly derived from turbine supply agreements and engineering, procurement and construction contracts.

2. Other long-term obligations are mainly comprised of office leases.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### ADJUSTED CASH FLOWS FROM OPERATING ACTIVITIES AND DISTRIBUTIONS

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

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

<b>Adjusted Cash Flows from Operating Activities</b>	<b>Three-month period ended Sept. 30, 2010</b>	<b>Three-month period ended Sept. 30, 2009</b>	<b>Nine-month period ended Sept. 30, 2010</b>	<b>Nine-month period ended Sept. 30, 2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flow from operating activities	15,411	10,298	12,495	29,977
Change in non-cash working capital items	(1,462)	(2,123)	23,350	(3,955)
Net withdrawals from (investments in) the reserve accounts (not funded from long-term debt)	(343)	200	108	(469)
<b>Adjusted cash flows from operating activities</b>	<b>13,606</b>	<b>8,375</b>	<b>35,953</b>	<b>25,553</b>
Weighted average number of shares outstanding – basic	59,533	42,930	54,181	42,930
Adjusted cash flows from operating activities (\$ per share - basic)	0.23	0.20	0.66	0.60
Dividends declared	8,632	7,352	24,691	22,053
Dividends declared (\$ per share)	0.145	0.171	0.462	0.514

The Corporation generated \$13.6 million in adjusted cash flows from operating activities in the third quarter of 2010 (\$8.4 million in 2009) and declared dividends totalling \$8.6 million (\$7.4 million in 2009) or \$0.145 per share (\$0.171 per share in 2009). The change in adjusted cash flows from operating activities is due mainly to a \$7.8 million increase in EBITDA, partially offset by a \$3.1 million increase in interest on long-term debt and convertible debentures.

For the nine-month period ended September 30, 2010, Innergex generated \$36.0 million in adjusted cash flows from operating activities (\$25.6 million in 2009) and declared dividends totalling \$24.7 million (\$22.1 million in 2009) or \$0.462 per share (\$0.514 per share in 2009). The change in adjusted cash flows from operating activities is due mainly to a \$12.7 million increase in EBITDA combined with a \$1.9 million positive variation in current income taxes, partially offset by a \$6.3 million increase in interest on long-term debt and convertible debentures.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### SEGMENT INFORMATION

#### Geographic Segments

The Corporation has 13 hydroelectric facilities and three wind farms in Canada and one hydroelectric facility in the United States. For the three and nine-month periods ended September 30, 2010, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$1.3 million and \$2.4 million respectively (\$1.5 million and \$3.1 million respectively in 2009), representing contributions of 5.2% and 3.8% respectively (10.0% and 6.9% respectively in 2009) to the Corporation's consolidated operating revenues for these periods.

#### Reportable Segments

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

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

The accounting policies for these segments are the same as those described in the "Significant Accounting Policies" section of the Fund's 2009 Annual Report and of the Corporation's Q3-2010 unaudited financial statements. The Corporation evaluates performance based on EBITDA and accounts for inter-segment and management sales at cost. Any transfers of assets from the site development segment to the hydroelectric or wind power generation segments are accounted for at cost.

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

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
<b>Three-month period ended September 30, 2010</b>				
Power generated (MW-hr)	291,296	64,966	-	356,262
Gross operating revenues from external clients	19,547	5,169	-	24,716
Expenses:				
Operating expenses	2,618	681	-	3,299
Stock-based compensation	49	29	48	126
General and administrative expenses	501	266	330	1,097
Prospective projects expenses	-	-	440	440
Earnings (loss) before interest, income taxes, depreciation and amortization and other items	16,379	4,193	(818)	19,754
<b>Three-month period ended September 30, 2009</b>				
Power generated (MW-hr)	184,073	39,229	-	223,302
Gross operating revenues from external clients	11,887	3,095	-	14,982
Expenses:				
Operating expenses	1,694	484	-	2,178
General and administrative expenses	663	221	-	884
Earnings before interest, income taxes, depreciation and amortization and other items	9,530	2,390	-	11,920

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
<b>Nine-month period ended September 30, 2010</b>				
Power generated (MW-hr)	687,866	195,815	-	883,681
Gross operating revenues from external clients	47,560	15,531	-	63,091
Expenses:				
Operating expenses	6,610	1,841	-	8,451
Stock-based compensation	78	46	79	203
General and administrative expenses	1,931	961	1,114	4,006
Prospective projects expenses	-	-	1,202	1,202
Earnings (loss) before interest, income taxes, depreciation and amortization and other items	38,941	12,683	(2,395)	49,229
<b>Nine -month period ended September 30, 2009</b>				
Power generated (MW-hr)	477,945	157,033	-	634,978
Gross operating revenues from external clients	33,101	12,341	-	45,442
Expenses:				
Operating expenses	4,796	1,386	-	6,182
General and administrative expenses	1,971	724	-	2,695
Earnings before interest, income taxes, depreciation and amortization and other items	26,334	10,231	-	36,565
<b>As at September 30, 2010</b>				
Goodwill	8,269	-	-	8,269
Total assets	577,399	268,026	68,290	913,715
Acquisition of capital assets since the beginning of the year	719	292	24,383	25,394
<b>As at December 31, 2009</b>				
Goodwill	8,269	-	-	8,269
Total assets	330,157	177,984	-	508,141

### Hydroelectric Generation Segment

For the three-month period ended September 30, 2010, the hydroelectric generation segment produced 3% less power than the long-term average due to lower-than-anticipated hydrologic conditions for some of the segment's facilities, resulting in gross operating revenues of \$19.5 million. In the corresponding period of 2009, production was 5% above the long-term average due to better-than-anticipated hydrologic conditions for most of the segment's facilities, resulting in gross operating revenues of \$11.9 million. As a result of the Combination, the contribution of the Glen Miller, Umbata Falls, Ashlu Creek and Fitzsimmons Creek facilities has been included in the results since March 30, 2010. Consequently, gross operating revenues and EBITDA increased \$7.7 million and \$6.8 million respectively compared with 2009.

For the nine-month period ended September 30, 2010, the hydroelectric generation segment produced 6% less power than the long-term average due to lower-than-anticipated hydrologic conditions for most of the segment's facilities and to the tunnel inspection and improvement work performed at the Ashlu Creek facility. This level of production resulted in gross operating revenues of \$47.6 million. As a result of the Combination, the contribution from the Pre-Combination Innergex's assets has been included in the results since March 30, 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

For the corresponding nine-month period of 2009, production was slightly above the long-term average resulting in gross operating revenues of \$33.1 million. This production level was due to better-than-anticipated hydrologic conditions for most of the segment's facilities, partly offset by lower-than-anticipated hydrologic conditions at the Rutherford Creek facility and transmission line work carried out by Hydro-Québec, which necessitated the shutdown of production of the three Portneuf facilities for 13 days in June 2009.

As a result of the Combination, the contribution of the Glen Miller, Umbata Falls, Ashlu Creek and Fitzsimmons Creek facilities have been included in the results since March 30, 2010. Consequently, gross operating revenues and EBITDA increased \$14.5 million and \$12.6 million respectively compared with 2009.

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

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

### Wind Power Generation Segment

The wind power generation segment produced 10% more power than expected in the third quarter of 2010, resulting in gross operating revenues of \$5.2 million. This performance is mainly due to better-than-anticipated wind conditions at the BDS and AAV wind farms. For the corresponding period of 2009, production was 12% above expectations due to better-than-anticipated wind conditions, resulting in gross operating revenues of \$3.1 million. As a result of the Combination, the contribution of the Carleton wind farm has been included in the third quarter of 2010's results. Consequently, gross operating revenues and EBITDA increased \$2.1 million and \$1.8 million respectively compared with 2009.

For the nine-month period ended September 30, 2010, production was 7% below expectations. This performance is due mainly to lower-than-anticipated wind conditions at the BDS and AAV wind farms and to a five-day shutdown of the AAV wind farm in January 2010, which was caused by transmission line work carried out by Hydro-Québec. For the corresponding period of 2009, production was in line with expectations due to wind conditions that were close to the long-term averages. As a result of the Combination, the contribution of the Carleton wind farm has been included in the results since March 30, 2010. Consequently, gross operating revenues and EBITDA increased \$3.2 million and \$2.5 million respectively compared with 2009.

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

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

### Site Development Segment

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### RELATED PARTY TRANSACTIONS

#### As Manager of the Innergex Power Income Fund

Prior to the Combination, the Corporation provided services to the Fund and its subsidiaries under three agreements: the Management Agreement; the Administration Agreement; and the Services Agreement. The three agreements were terminated upon the closing of the Combination. As a result, no amounts were paid during the third quarter of 2010. In the first quarter of 2010, the Fund paid \$0.5 million for services provided under these three agreements. For the three and nine-month periods ended September 30, 2009, the Fund paid \$0.5 million and \$1.6 million respectively under these three agreements.

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

#### Combination of the Fund and Innergex

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

The total estimated purchase price amounts to \$175.5 million and was accounted for under Section 1581 of the Canadian Institute of Chartered Accountants ("CICA") Handbook. The fair value of the consideration transferred is based on the number of Fund units that would have had to be issued in order to provide the same percentage of ownership of the combined entity to the Fund's unitholders. The preliminary purchase price allocation is presented in Note 3 to the Corporation's Q3-2010 unaudited financial statements.

For more information about the Combination, please refer to the "Arrangement Agreement" dated January 31, 2010, and the Joint Circular available on Innergex's website at [www.innergex.com](http://www.innergex.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires Innergex's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates are based on management's best knowledge of current events and actions that the Company may take in the future. Actual amounts may differ if such estimates are modified. The critical accounting estimates for the Corporation are related to the valuation of assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives for depreciation and amortization, valuation of derivative financial instruments, and future income taxes. Fixed assets, comprised essentially of hydroelectric and wind power generating facilities, are recorded at cost. Financing costs related to the construction of fixed assets are capitalized when incurred. Depreciation of hydroelectric and wind power generating facilities is based on the estimated useful life of the assets using the straight-line method over the lesser of a period of 50 years for hydroelectric facilities and 25 years for wind facilities and the period for which the Corporation owns the rights to the assets. Intangible assets consist of various permits, licences and agreements related to the hydroelectric and wind power generating facilities. These intangible assets are amortized using the straight-line method over the period from when the facility becomes commercially operational until the maturity date of permits, licences and agreements for each facility. Derivative financial instruments are valued by taking into account their maturity, benchmark interest rates, the Corporation's or counterparty's risk premium and/or the inflation rate. Other significant accounting policies are listed in Note 1 to the Fund's 2009 audited consolidated financial statements and in Note 2 to the Corporation's Q3-2010 unaudited financial statements.

### ACCOUNTING CHANGES

#### International Financial Reporting Standards

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### Accounting policies

The Corporation has started its detailed assessment and evaluation of the impact the IFRS will have on accounting and financial presentation as well as the various accounting policies that the Corporation could adopt. To this end, the Corporation has been assessing the various choices provided in IFRS 1, "First-time Adoption of International Financial Reporting Standards," to prepare the opening balance sheet as at January 1, 2010, and has been discussing with its auditors for that purpose. The Corporation will not elect to reevaluate its property, plant and equipment at their fair market value.

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

The potential impact from property, plant and equipment comes from its disclosure in its various components, and their various useful lives. The property, plant and equipment and their useful lives components have been determined by management. The detailed computation of the adjustments required to depreciation is almost completed. The expected effect is an increase of depreciation of approximately \$0.6 million per year when considering assets acquired through the Combination. Under IFRS, the opening balance sheet as of January 1, 2010, will see a decrease of approximately \$2.0 million in the net book value of the property, plant and equipment

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

Several investments in associates and joint ventures are consolidated in Innergex under Canadian GAAP. These investments are either, fully consolidated, proportionally consolidated or consolidated as variable interest entities. Under the IAS 31 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 analysis of these differences is underway to identify which entities might be affected. As of today, the main difference identified by the Corporation is that the accounting of the Umbata Falls facility could be modified. Under Canadian GAAP, Umbata Falls L.P. is proportionally consolidated according to the Corporation's 49% interest in the Umbata Falls facility. Under the revised standard, Umbata Falls L.P. should be accounted for as an investment on the balance sheet with 49% of its net results recognized as share of net earnings of an entity subject to significant influence. This will decrease both total assets and liabilities on the balance sheet.

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

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

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

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and nine-month periods ended September 30, 2010

### **Information Technology**

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

### **Internal control**

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

### **Disclosure controls and procedures**

A monitoring system of the adjustments is currently being established in order to restate financial statements and ensure their compliance with the IFRS. When the effects of the restatement will be known, the Corporation will communicate them through its continuous disclosure. It is expected that during the fourth quarter of 2010, the financial statements of Innergex for the first three quarters of 2010 will be prepared so as to be IFRS-compliant. In the first quarter of 2011, Innergex will prepare the IFRS financial statements for the fourth quarter of 2010.

### **Financial reporting expertise**

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

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

### **Business issues**

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

## **RISKS AND UNCERTAINTIES**

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

## **ADDITIONAL INFORMATION AND UPDATES**

Additional and updated information on the Corporation is available through its regular press releases, quarterly financial statements and Annual Information Form, which can be found on the Corporation's website at [www.innergex.com](http://www.innergex.com) and on the SEDAR website at [www.sedar.com](http://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

For the three and nine-month periods ended September 30, 2010

### QUARTERLY FINANCIAL INFORMATION

For the three-month periods ended (unaudited):

<b>Quarterly Financial Information (unaudited) for the Three-Month Periods Ended:</b>				
(in millions of dollars, unless otherwise stated)	Sept. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009
Power generated (MW-hr)	356,262	369,753	157,666	189,011
Gross operating revenues	24.7	24.8	13.6	13.2
EBITDA	19.8	18.8	10.7	10.2
Net (loss) earnings	(10.9) <sup>a</sup>	(6.5) <sup>b</sup>	(0.5)	7.0
Net (loss) earnings (\$ per share - basic)	(0.19) <sup>a</sup>	(0.11) <sup>b</sup>	(0.01)	0.16
Net (loss) earnings (\$ per share - diluted)	(0.19) <sup>a</sup>	(0.11) <sup>b</sup>	(0.01)	0.16
Cash flows from operating activities	15.4	(5.7)	2.8	4.8
Change in non-cash working capital items	(1.5)	19.9	4.9	2.4
Net withdrawals from (investments in) the reserve accounts (not funded from long-term debt)	(0.3)	(0.5)	0.9	-
Adjusted cash flows from operating activities	13.6	13.8	8.6	7.2
Adjusted cash flows from operating activities (\$ per share - basic)	0.23	0.23	0.20	0.17
Dividends declared	8.6	8.8	7.2	7.4
Dividends declared (\$ per share)	0.145	0.148	0.169	0.171

<sup>a</sup> Excluding the unrealized loss on derivative financial instruments of \$20.1 million and the related future income tax recovery of \$5.4 million, the net earnings for Q3-2010 would have been \$3.8 million (\$0.06 per basic and diluted share).

<sup>b</sup> Excluding the unrealized loss on derivative financial instruments of \$14.1 million and the related future income tax recovery of \$3.8 million, the net earnings for Q2-2010 would have been \$3.8 million (\$0.06 per basic and diluted share).

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

(in millions of dollars, unless otherwise stated)	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009	Dec. 31, 2008
Power generated (MW-hr)	223,302	247,764	163,912	220,299
Gross operating revenue	15.0	16.5	13.9	14.7
EBITDA	11.9	13.6	11.1	11.0
Net earnings (loss)	2.8	13.4 <sup>c</sup>	3.0	(13.8) <sup>d</sup>
Net earnings (loss) (\$ per share - basic)	0.07	0.31 <sup>c</sup>	0.07	(0.32) <sup>d</sup>
Net earnings (loss) (\$ per share - diluted)	0.07	0.31 <sup>c</sup>	0.07	(0.32) <sup>d</sup>
Cash flows from operating activities	10.3	11.4	8.3	7.1
Change in non-cash working capital items	(2.1)	(1.4)	(0.4)	(0.3)
Net withdrawals from (investments in) the reserve accounts (not funded from long-term debt)	0.2	(0.8)	0.2	0.9
Adjusted cash flows from operating activities	8.4	9.2	8.1	7.7
Adjusted cash flows from operating activities (\$ per share - basic)	0.20	0.21	0.19	0.18
Dividends declared	7.4	7.4	7.3	7.3
Dividends declared (\$ per share)	0.171	0.171	0.171	0.171

<sup>c</sup> Excluding the unrealized foreign exchange gain of \$0.2 million, the unrealized gain on derivative financial instruments of \$11.2 million and the related future income tax provision of \$2.8 million, the net earnings for Q2-2009 would have been \$4.7 million (\$0.11 per basic and diluted share).

<sup>d</sup> Excluding the unrealized exchange loss of \$0.3 million, the unrealized loss on derivative financial instruments of \$19.5 million and the related future income tax recovery of \$2.6 million, the net earnings for Q4-2008 would have been \$3.4 million (\$0.08 per basic and diluted share).



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and nine-month periods ended September 30, 2010

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

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

### **SUBSEQUENT EVENTS**

There has been no subsequent event since the end of the third quarter of 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine-month periods ended September 30, 2010

### 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

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Telephone: 1 800 564-6253 or 514 982-7555

Email: [service@computershare.com](mailto:service@computershare.com)

#### Auditors

Samson Bélaïr/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](http://www.innergex.com) or contact:

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