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Annual Report

Growing with Energy

Innergex Renewable Energy Inc.

INNERGEX
Énergie renouvelable
Renewable Energy

Consolidated Financial Statements of

INNERGEX RENEWABLE ENERGY INC.

December 31, 2009

Responsibility for Financial Reporting

The consolidated financial statements of Innergex Renewable Energy Inc. (the “Corporation”) accompanying this annual report and all of the information herein concerning the Corporation are the responsibility of Management.

These consolidated financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles (“GAAP”) by applying the detailed accounting policies set out in the notes to the financial statements. Management is of the opinion that the consolidated financial statements were prepared based on reasonable and material criteria and using justifiable and reasonable estimates. The Corporation’s financial information, presented elsewhere in the annual report, is consistent with what is presented in the financial statements.

Management maintains efficient and high-quality internal accounting and management control systems while ensuring that costs are reasonable. These systems provide assurance that the financial information is relevant, accurate and reliable, and that the Corporation’s assets are correctly accounted for and adequately protected.

The Board of Directors of the Corporation is responsible for ensuring that Management fulfils its financial reporting responsibilities. In addition, the Board of Directors is ultimately responsible for reviewing and approving the Corporation’s consolidated financial statements. The Board of Directors fulfils this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and all of its members are external non-related Directors.

The Audit Committee meets with Management and the external auditors for the purposes of discussing internal controls relating to the financial reporting process, audit of financial information and other financial issues, and to make sure that each party is properly fulfilling its responsibilities. In addition, the Audit Committee reviews the annual report, the consolidated financial statements and the external auditors’ report. The Audit Committee submits its finding to the Board of Directors for review and for approval of the consolidated financial statements prior to their presentation to the shareholders. The Audit Committee also determines whether to retain the services of external auditors and to renew their mandate, which is subject to Board review and shareholders’ approval.

These financial statements were approved by the Corporation’s Board of Directors. The Corporation’s financial statements were audited by its external auditors, Samson Bélair / Deloitte & Touche s.e.n.c.r.l., in accordance with Canadian generally accepted auditing standards and on the shareholders’ behalf. Samson Bélair / Deloitte & Touche s.e.n.c.r.l. enjoy full and unrestricted access to the Audit Committee.

[s] Michel Letellier
Michel Letellier, MBA
President
and Chief Executive Officer

[s] Jean Perron
Jean Perron, CA, CMA
Vice President
and Chief Financial Officer

Innergex Renewable Energy Inc.

Longueuil, Canada, March 22, 2010

Auditors’ Report

To the Shareholders of
Innergex Renewable Energy Inc.

We have audited the consolidated balance sheets of Innergex Renewable Energy Inc. (the “Corporation”) as at December 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l. [1]

Montreal, Québec
March 22, 2010

[1] Chartered Accountant auditor permit n° 15452

INNERGEX RENEWABLE ENERGY INC.
Consolidated Statements of Loss

	For the year ended December 31, 2009	For the year ended December 31, 2008
	$	$
Revenues		(Restated Note 3(a))
Operating	19,955,281	4,902,132
Management fees	2,319,816	2,335,262
Share of net earnings (loss) of an entity subject to significant influence (Note 9)	3,365,954	(1,370,859)
	25,641,051	5,866,535
Expenses		
Operating expenses	1,741,968	613,974
Stock-based compensation (Note 17)	1,563,627	1,563,627
General and administrative expenses	5,751,911	5,064,608
	9,057,506	7,242,209
Earnings (loss) from operations	16,583,545	(1,375,674)
Prospective projects expenses	2,305,931	3,703,378
Earnings (loss) before interests, income taxes, depreciation and amortization and other items	14,277,614	(5,079,052)
Interest on long-term debt	4,403,750	1,140,556
Realized loss on derivative financial instrument	1,496,950	2,410,000
Other expenses and (revenues)	2,697	(647,075)
Earnings (loss) before income taxes, depreciation and amortization and other items	8,374,217	(7,982,533)
Depreciation and amortization	6,424,280	1,848,547
Unrealized net (gain) loss on derivative financial instruments (Note 13)	(10,018,017)	17,665,163
Impairment of project development costs (Note 8)	421,335	17,514,227
Impairment of goodwill (Note 10)	22,458,445	3,604,865
Loss before income taxes and minority interests	(10,911,826)	(48,615,335)
Income taxes (recovery) (Note 16)		
Current	5,490	(7,797)
Future	4,664,460	(12,501,824)
	4,669,950	(12,509,621)
Net loss before minority interests	(15,581,776)	(36,105,714)
Losses allocated to minority interests	252,868	314,270
Net loss	(15,328,908)	(35,791,444)
Weighted average number of shares outstanding	23,500,000	23,500,000
Basic net loss per share	(0.65)	(1.52)
Diluted number of shares outstanding	23,500,000	23,500,000
Diluted net loss per share	(0.65)	(1.52)

Additional information is presented in Note 19.

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

INNERGEX RENEWABLE ENERGY INC.

Consolidated Statements of Comprehensive Loss and Deficit

Consolidated statements of Comprehensive loss	For the year ended December 31, 2009	For the year ended December 31, 2008
	$	$
		(Restated Note 3(a))
Net loss	(15,328,908)	(35,791,444)
Other items of comprehensive loss		
Unrealized foreign exchange (loss) gain on a self-sustaining foreign subsidiary of the investment in an entity subject to significant influence	(87,683)	115,009
Unrealized foreign exchange gain (loss) on the designated portion of the debt used as hedge on the investment in a self-sustaining foreign subsidiary of the investment in an entity subject to significant influence	83,366	(113,788)
	(4,317)	1,221
Comprehensive loss	(15,333,225)	(35,790,223)

Consolidated statements of Deficit	For the year ended December 31, 2009	For the year ended December 31, 2008
	$	$
		(Restated Note 3(a))
(Deficit) retained earnings, beginning of year as previously reported	(32,315,983)	1,593,334
Cumulative effect of change in accounting policy on previous years (Note 3 (a))	(1,987,708)	(105,581)
Restated (deficit) retained earnings, beginning of year	(34,303,691)	1,487,753
Net loss	(15,328,908)	(35,791,444)
Deficit, end of year	(49,632,599)	(34,303,691)
Cumulative other comprehensive income - beginning of year	1,221	-
Other items of comprehensive (loss) income	(4,317)	1,221
Cumulative other comprehensive (loss) income - end of year	(3,096)	1,221
Total deficit and cumulative other comprehensive loss	(49,635,695)	(34,302,470)

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

INNERGEX RENEWABLE ENERGY INC.
Consolidated Balance Sheets

	December 31, 2009	December 31, 2008
	$	$
Assets		
Current assets		(Restated Note 3(a))
Cash and cash equivalents	10,328,816	5,957,780
Accounts receivable (Note 5)	6,630,156	22,891,011
Prepaid and others	2,004,200	1,242,318
	18,963,172	30,091,109
Reserve accounts	4,157,914	453,028
Property, plant and equipment (Note 6)	271,311,959	229,527,304
Intangible assets (Note 7)	43,757,531	44,376,880
Project development costs (Note 8)	31,149,025	27,881,244
Investment in an entity subject to significant influence (Note 9)	55,689,284	57,052,056
Future income taxes (Note 16)	6,673,488	10,992,537
Goodwill (Note 10)	8,053,001	30,511,446
Derivative financial instruments (Note 13)	4,816,301	764,208
Other long-term assets	64,033	51,000
	444,635,708	431,700,812
Liabilities		
Current liabilities		
Bank loan (Note 11)	12,300,000	9,750,000
Accounts payable and accrued liabilities (Note 12)	10,523,946	12,019,239
Derivative financial instruments (Note 13)	16,757,154	20,411,968
Current portion of long-term debt (Note 14)	4,640,139	15,993,983
	44,221,239	58,175,190
Construction holdbacks	-	5,057,542
Derivative financial instruments (Note 13)	-	2,311,110
Accrual for acquisition of long-term assets (Note 14 (h))	17,685,036	14,120,894
Long-term debt (Note 14)	193,989,493	149,514,434
Asset retirement obligations (Note 15)	491,031	453,452
Future income taxes (Note 16)	4,979,705	4,776,520
Minority interests	-	252,868
	261,366,504	234,662,010
Shareholders' equity		
Share capital (Note 17)	229,472,343	229,472,343
Contributed surplus (Note 17)	3,257,556	1,693,929
Warrants (Note 18)	175,000	175,000
Total deficit and cumulative other comprehensive loss	(49,635,695)	(34,302,470)
Commitments and guarantee (Note 23)		
	183,269,204	197,038,802
	444,635,708	431,700,812

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

On behalf of the Board

[S] *Gilles Lefrançois*
Gilles Lefrançois, CA
Chairman of the Board of Directors

[S] *Michel Letellier*
Michel Letellier, MBA
Director

INNERGEX RENEWABLE ENERGY INC.
Consolidated Statements of Cash Flows

	For the year ended December 31, 2009	For the year ended December 31, 2008
	$	$
Operating activities		(Restated Note 3(a))
Net loss	(15,328,908)	(35,791,444)
Items not affecting cash:		
Depreciation of property, plant and equipment	5,303,322	1,420,858
Amortization of intangible assets	1,120,958	427,689
Accretion of expense on asset retirement obligation	37,579	4,119
Share of net (earnings) loss of an entity subject to significant influence	(3,365,954)	1,370,859
Amortization of deferred financing fees	239,382	19,740
Stock-based compensation	1,563,627	1,563,627
Unrealized net (gain) loss on derivative financial instruments	(10,018,017)	17,665,163
Impairment of project development costs	421,335	17,514,227
Impairment of goodwill	22,458,445	3,604,865
Future income taxes	4,664,460	(12,501,824)
Losses allocated to minority interests	(252,868)	(314,270)
Changes in non-cash operating working capital items (Note 20)	16,105,689	(10,238,103)
	22,949,050	(15,254,494)
Financing activities		
Increase in bank loan	2,550,000	7,750,000
Issuance of long-term debt	49,994,000	86,311,000
Repayment of long-term debt	(16,261,724)	(772,916)
Deferred financing fees on long-term debt	(874,750)	(1,184,407)
Issuance costs of shares (Note 17)	-	959,153
Issuance of warrants (Note 18)	-	175,000
	35,407,526	93,237,830
Investing activities		
Additions to reserve accounts	(3,704,886)	(105,663)
Business acquisitions, net of cash acquired (Note 4)	-	(8,674,274)
Additions to property, plant and equipment	(50,285,173)	(97,913,350)
Additions to intangible assets	(501,609)	(2,012,282)
Additions to project development costs	(4,205,248)	(2,742,067)
Distributions received from an entity subject to significant influence	4,724,409	4,708,899
Variation of other long-term assets	(13,033)	22,344
	(53,985,540)	(106,716,393)
Net increase (decrease) in cash and cash equivalents	4,371,036	(28,733,057)
Cash and cash equivalents, beginning of year	5,957,780	34,690,837
Cash and cash equivalents, end of year	10,328,816	5,957,780
Cash and cash equivalents is comprised of:		
Cash	7,150,475	3,008,606
Short-term investments	3,178,341	2,949,174
	10,328,816	5,957,780

Additional information is presented in Note 20.

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

1. Description of business

Innergex Renewable Energy Inc. (the “Corporation”) was incorporated under the Canada Business Corporation Act on October 25, 2002. The Corporation completed its initial public offering on December 6, 2007. The Corporation is an independent developer, owner and operator of renewable power-generating facilities, essentially focused on the hydroelectric and wind power sectors.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Principles of consolidation

The consolidated 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. Investments over which the Corporation is able to exercise significant influence are accounted for by the equity method. All intercompany balances and transactions have been eliminated.

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.

Liquidity

The Corporation’s working capital deficiency amounts to $ 25,258,067 as of December 31, 2009. The deficiency is mainly due to (i) the bank loan of $ 12,300,000 and (ii) to $ 14,664,525 of hedging derivative financial instruments used by Ashlu Creek LP, a subsidiary of the Corporation, to protect the Ashlu project from interest rate risks movements.

On January 27, 2010, as discussed in Note 28(d), the bank loan was renewed until December 30, 2010 and need not to be repaid prior to that date.

Unless benchmark interest rates increase to revert to more favourable conditions in which case the negative value of the hedges would reduce, failure to extend the maturity of the hedging contracts or in obtaining new financing could result in a shortfall of liquidities. The subsidiary could then become in default under its financing agreement. The subsidiary’s financing agreement and hedging contracts are non-recourse to the Corporation and can be exercise solely upon the assets and guarantees of the subsidiary. To the extend the Corporation or the subsidiary are unable to remedy the situation, the subsidiary could be in a position where it could not repay the financial obligation under the hedging program upon maturity. This would impair the Corporation’s investment in the subsidiary but not the other assets of the Corporation.

In the past, the Corporation and its subsidiaries have been able to extend/renew their hedging derivative financial instruments or obtain outside financing to meet their capital requirements with the anticipation that once their projects are completed and operational, they contribute to future liquidity needs. Management’s ongoing plan with respect to the significant uncertainty described above is to (i) continue discussions with the subsidiary’s lenders to extend the maturity of the hedging contracts and in the unlikely event that management is unable to come to an agreement with its lenders, management could take the following actions (ii) seek additional financing to repay the hedging contracts (iii) consider issuance of additional securities by the subsidiary or the Corporation or (iv) monetize other assets of the Corporation.

In the current economic environment, while financial institutions continue to lend, they are much more cautious and certain terms and conditions could result in credit becoming more onerous or simply unavailable for the pursuit of the Corporation's development or prospective projects. If the Corporation is unable to conclude project financing in a timely manner and on commercially acceptable terms, construction of additional development projects or prospective projects could be postponed. The Corporation's present operating and construction activities are financed using long-term non-recourse project financings provided by strong relationship banks. As of March 22, 2010, the Corporation has fulfilled all of its financing needs for projects under construction.

On February 1, 2010, the Corporation and Innergex Power Income Fund announced that they have entered into a definitive agreement to undertake a strategic combination ("the Combination") of the two entities whereby Innergex Power Income Fund acquires the Corporation by way of a reverse take-over ("Combined Innergex"), thereby effecting at the same time the conversion of Innergex Power Income Fund to a corporation.

On March 8, 2010, the Corporation announced that it had completed an offering of extendible convertible unsecured subordinated debentures in the aggregate principal amount of $70.0 million (the "Debentures"). The Debentures have an initial maturity date of April 30, 2010 which will automatically be extended to April 30, 2017 upon the closing of the Combination. The Debentures bear interest at a rate of 5.75% per annum, payable semi-annually, and are convertible at the option of the holder into common shares ("Common Shares") of the Corporation at a conversion rate of 93.8967 Common Shares per $1,000 principal amount of Debentures, which is equal to a conversion price of $10.65 per Common Share.

On March 16, 2010, the Corporation announced that it has closed the over-allotment option granted to the underwriters on March 8, 2010, to purchase an additional $ 10.5 million principal amount of the Debentures. Combined with the Corporation's March 8, 2010, offering of $ 70.0 million principal amount of Debentures, the over-allotment option brings the aggregate gross proceeds of the offering to $ 80.5 million.

The consolidated financial statements have been prepared on a going concern basis. The Corporation believes that the currently improving economic conditions and the effective management of its operations and financial resources will allow the Corporation to meet all of its obligations as they become due. The bank loan is maturing on December 31, 2010 and refinancing activities are currently underway. Although there can be no assurance that such credit facility will be renewed or refinanced or that the renewal or refinancing will occur on equally favorable terms, the Corporation is currently in full compliance with all its financial covenants and expects to be for the next 12 months.

Accordingly, the Corporation concluded that there is no substantial doubt about its ability to continue as a going concern, and its financial statements have been prepared on a going concern basis.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

Reserve accounts

The Corporation holds two 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 significantly from quarter to quarter according to the seasonality of cash flows. The second is the major maintenance reserve established in order to pre-fund any major plant repairs that may be required to maintain the Corporation's generating capacity.

The reserve accounts are currently invested in short-term investments having maturities of three months or less.

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 a period of 25 years. Improvements that increase or extend the service life or capacity of an asset are capitalized. Other equipments are depreciated using the straight-line method over a period extending from 3 to 5 years. Maintenance and repair costs are expensed as incurred. Property, plant and equipment are not depreciated until their commissioning date.

Type of property, plant and equipment	Ending years of depreciation period	Useful life for the depreciation period
Hydroelectric facilities	2033 to 2049	25 to 40 years
Wind farm facilities	2033	25 years

Intangible assets

Intangible assets consist of various permits, licenses and agreements. They are recorded at cost and amortization starts when the related facility becomes commercially operational. They are amortized using the straight-line method over a period extending from 20 to 30 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 will be amortized over the three-year warranty period.

Intangible assets related to :	Ending years of amortization period	Useful life for the amortization period
Hydroelectric facilities	2025 to 2039	20 to 30 years
Wind farm facilities	2028	20 years
Extended warranty	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. The costs are transferred to property, plant and equipment or intangible assets when a hydroelectric or wind farm site becomes in construction. Interest costs incurred to finance acquisition and development are capitalized as project development costs. Costs of prospective projects are expensed as incurred and costs of an unsuccessful project under development are written off in the year the project is abandoned.

Investment in an entity subject to significant influence

Investment in Innergex Power Income Fund over which the Corporation exercises a significant influence under accounting rules (but does not control) is accounted for using the equity method whereby the investment is initially recorded at cost and subsequently adjusted to recognize the Corporation’s share of earnings or losses of the investee and reduced by distributions received. The excess of the cost of equity investments over the underlying book value at the date of acquisition, except for goodwill, is amortized over the estimated useful lives of the underlying assets to which it is attributed.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposal. The amount of the impairment loss is determined as the excess of the carrying amount of the asset over its fair value.

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 loss 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 group of assets or segments, the related goodwill is also transferred.

Asset retirement obligations

The Corporation recognizes a liability for an asset retirement obligation arising from acquisitions, construction or development or in the normal course of business. An asset retirement liability is initially recognized at its fair value during the year in which the Corporation incurs a legal asset retirement obligation and when a reasonable estimate of the fair value can be made. The corresponding cost is capitalized as part of the related asset and amortized over the asset's estimated useful life. In subsequent years, this liability is adjusted for changes resulting from the passage of time and for revisions to the timing or amount of the original estimate of the undiscounted future cash flows. Any increase in the liability fair value resulting from the passage of time is charged to earnings.

Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, service has been rendered, the price to the buyer is fixed or determinable and collection is reasonably assured. Operating revenues come from electricity production sold to publicly owned utilities. Management fees are earned from services rendered as the manager of Innergex Power Income Fund for supervision, assistance and administration in operating facilities. Share of net earnings or loss of an entity subject to significant influence comes from recording the Corporation's 16.1 % share of the net earnings or loss of Innergex Power Income Fund.

Financial instruments

Financial assets and liabilities are initially recorded at fair value and their subsequent measurement depends on their classification as described below. The classification depends on the objectives set forth when the financial instruments were purchased or issued, their characteristics and their designation by the Corporation.

Derivative financial instruments held for trading or that are not eligible for hedge accounting are recognized on the balance sheet at their fair value, with changes in fair value recognized in net earnings.

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

The Corporation has made the following classification:

- Cash and cash equivalents and funds held in reserve are designated as assets or liabilities held for trading. Financial derivatives are classified as held for trading in accordance with Section 3855. These items are measured at fair value; gains or losses arising from the revaluation at the end of each period are recorded in the consolidated statement of loss.

  Investment income earned on assets or liabilities designated as held for trading is included in other revenues and expenses in the consolidated statement of loss.

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

- Accounts receivable and distribution receivable are classified as loans and receivables and are measured at amortized cost.

- Bank loan, accounts payable and accrued liabilities, construction holdbacks, accrual for acquisition of long-term assets and long-term debt are classified as other financial liabilities. They were initially measured at fair value and are now recorded at amortized cost.

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.

Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates then prevailing. The resulting translation gains or losses are recognized in the determination of net loss.

Income taxes

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

Government assistance

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

The Corporation is entitled to subsidies under the EcoEnergy program. The subsidies are equal to 1¢ per KW-hr produced at the Ashlu Creek and Umbata Falls facilities and at the Carleton wind farm for the first 10 years following commissioning. As per the electricity purchase agreement, the Corporation must transfer 75 % of the Carleton wind farm 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.

Earnings per share

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares outstanding during the year. 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 exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and / or warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year. At December 31, 2009, and 2008 all of the issued stock options and warrants were excluded from the calculation of diluted weighted average shares outstanding as to include them would be anti-dilutive.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant areas requiring the use of management's estimates relate to valuation of assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives for depreciation and amortization, asset retirement obligations and future income taxes.

3. Changes in accounting policies

a) New standards adopted in 2009 :

i) The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, Goodwill and Intangible Assets, replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section, issued in February 2008, is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation adopted the new standard for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation's activities include prospective projects costs that were capitalized into the costs of new projects. Under Section 3064, these costs are expensed as incurred. The application of this new standard is retroactive and requires the Corporation to expense prospective projects costs previously capitalized. The effect of this new standard on the consolidated balance sheet of the Corporation as of January 1, 2008 is as follows:

Consolidated Balance Sheet accounts	Assets	Liabilities and Shareholders' Equity
	$	$
(Decrease)		
Project development costs	(145,312)	
Future Income taxes		(39,731)
Shareholders' equity		(105,581)
	(145,312)	(145,312)

The effect of this new standard on the consolidated statements of loss for the 2008 comparative period is as follows:

Consolidated Statements of Loss accounts	Year ended December 31, 2008
	$
Prospective projects expenses increase	3,703,378
Impairment of project development costs decrease	(735,989)
Future income taxes recovery	(781,492)
Loss allocated to minority interests increase	(303,770)
Net increase of loss	1,882,127
Basic and diluted net increase of loss per share	(0.08)

The effect of this new standard on the consolidated balance sheet of the Corporation as of January 1, 2009 is as follows:

Consolidated Balance Sheet accounts	Assets	Liabilities and Shareholders' Equity
	$	$
Increase (decrease)		
Project development costs	(3,112,701)	
Goodwill	(705,344)	
Future income taxes assets	470,457	
Future income taxes liabilities		(154,857)
Minority interests		(1,205,023)
Shareholders' equity		(1,987,708)
	(3,347,588)	(3,347,588)

ii) The Corporation adopted the changes made by CICA to Section 3862, Financial instruments – Disclosures whereby an entity shall classify and disclose fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices);

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The required disclosures are included in Notes 13 and 22.

b) New standards adopted in 2008 :

i) CICA Handbook Section 1535, *Capital Disclosures*. This Section describes the information that enables users of its financial statements to evaluate its objectives, policies and processes for managing capital. This Section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The application of this section requires additional disclosures that are presented in Note 24.

ii) CICA Handbook Section 3031, *Inventories*, establishes practices for the measurement and disclosure of inventories. Application of these practices didn't require any adjustments of the retained earnings' opening balance but required a reclassification from the other short-term assets to the property, plant and equipment for an amount of $ 31,310. Annual charge of depreciation was increased by $ 1,122.

iii) CICA Handbook, EIC-173, *Credit risk and the Fair Value of Financial Assets and Financial Liabilities* states that the credit risk of counterparties should be taken into account in determining the fair value of derivative financial instruments. The Corporation already considered the effect of EIC-173 in measuring its derivative financial instruments.

c) Future accounting changes:

i) CICA Handbook Section 1582, *Business Combinations*. This new Section will be applicable to business combinations for which the acquisition date is on or after the Corporation's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

ii) CICA Handbook Section 1601, *Consolidated financial statements*. This new Section will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Corporation has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

iii) CICA Handbook Section 1602, *Non-Controlling interests*. This new Section will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Corporation has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

d) 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 31st , 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.

4. Business acquisitions

a) Creek Power Inc.

On August 29, 2008, the Corporation completed the acquisition of a 66⅔ % interest in Creek Power Inc., for a cash consideration of $ 8,675,000 including acquisition costs of $ 500,000. Creek Power Inc. owns certain rights relating to 18 prospective hydroelectric projects representing a potential aggregate of 200 MW of installed capacity located in the Lower Mainland of British Columbia. The remaining 33⅓ % interest in Creek Power Inc. is still held by Ledcor Power Group Ltd. The acquisition was accounted for using the purchase method on August 29, 2008. The earnings and comprehensive income of Creek Power Inc. have been consolidated with the Corporation's results since the date of acquisition. The total purchase price allocation was determined and subsequently adjusted as follows:

	Previously reported price allocation	CICA Handbook section 3064 adjustments	Adjusted price allocation
	$	$	$
Cash and cash equivalents	726	-	726
Net working capital	(409,811)	-	(409,811)
Property, plant and equipment	2,232,730	-	2,232,730
Intangible assets	1,738,333	-	1,738,333
Project development costs	3,878,590	-	3,878,590
Goodwill	2,812,592	(705,344)	2,107,248
	10,253,160	(705,344)	9,547,816
Future income taxes	(114,769)	(195,909)	(310,678)
	10,138,391	(901,253)	9,237,138
Minority interest	(1,463,391)	901,253	(562,138)
Net assets acquired	8,675,000	-	8,675,000
Additional Information			
Unpaid project development costs acquired	257,731	-	257,731
Unpaid property, plant and equipment acquired	155,032	-	155,032

The purchase price allocated to goodwill has no tax base and is related to the development of sites.

b) Innergex II Income Fund

Pursuant to its initial public offering on December 6, 2007, the Corporation issued 21,557,999 common shares at a price of $ 11.00 per share.

At the closing of the offering, the Corporation acquired 85 % of the outstanding units in Innergex II Income Fund, a related party. Since then, Innergex II Income Fund is now wholly owned by the Corporation.

The acquisition of Innergex II Income Fund has been accounted for using the purchase method at its respective acquisition cost on December 6, 2007. The earnings and comprehensive income of Innergex II Income Fund have been consolidated with the Corporation's results since the date of acquisition.

In 2008, the purchase price allocation of Innergex II Income Fund was modified. The Corporation reviewed the allocation and made some adjustments. Net working capital decreased by $ 1,137,621 following a reduction in, non-interest bearing demand notes receivable from subsidiaries of Innergex Power Income Fund, an entity subject to significant influence to $ 12,870,946. Property, plant and equipment, goodwill and future income tax liabilities increased by $ 641,016, $ 1,456,485 and $ 959,880, respectively.

	December 6, 2007 preliminary allocation price	2008 adjustments	Revised allocation price
	$	$	$
Cash and cash equivalents	(764,390)	-	(764,390)
Net working capital	1,936,223	(1,137,621)	798,602
Property, plant and equipment	107,212,085	641,016	107,853,101
Intangible assets	40,856,883	-	40,856,883
Project development costs	36,586,610	-	36,586,610
Investment in an entity subject to significant influence	61,700,782	-	61,700,782
Goodwill	30,552,578	1,456,485	32,009,063
Other long-term assets	2,402,584	-	2,402,584
	280,483,355	959,880	281,443,235
Construction holdbacks	(3,015,097)	-	(3,015,097)
Derivative financial instruments	(1,514,638)	-	(1,514,638)
Long-term debt	(204,569,000)	-	(204,569,000)
Future income taxes	(8,002,220)	(959,880)	(8,962,100)
	(217,100,955)	(959,880)	(218,060,835)
Minority interest	(5,000)	-	(5,000)
Elimination of the 15 % investment held in Innergex II Income Fund upon consolidation of wholly owned subsidiary	(13,235)	-	(13,235)
Net assets acquired	63,364,165	-	63,364,165
Additional information			
Unpaid property, plant and equipment acquired			10,207,659
Unpaid project development costs acquired			497,496
Unpaid assets acquired			10,705,155

The purchase price allocated to goodwill has no tax base and is related to the development of sites.

The net working capital included non-interest bearing demand notes of $ 12,870,946 receivable from subsidiaries of Innergex Power Income Fund. These notes were paid during the second and third quarter of 2008.

5. Accounts receivable

	December 31, 2009	December 31, 2008
	$	$
Trade	3,956,005	4,103,731
Payments receivable for property, plant and equipment	-	8,801,534
Commodity taxes	756,895	6,919,660
Receivables from an entity subject to significant influence	1,164,285	1,238,690
Receivables from related parties	62,127	50,061
Investment tax credits	418,176	429,431
Others	272,668	1,347,904
	6,630,156	22,891,011

Substantially all of the trade receivables are from Hydro-Quebec, Ontario Power Authority and British Columbia Hydro and Power Authority. Hydro-Quebec currently holds a credit rating of A+ from Standard & Poor's (S&P). The Ministry of Energy of the Province of Ontario has stated that the Province of Ontario, which currently holds a credit rating of AA- from S&P, will honor Ontario Power Authority obligations under the Purchase Power Agreements to which it is a party. Bristish Columbia Hydro and Power Authority currently holds a credit rating of AAA from S&P.

The payments receivable for property, plant and equipment was receivable from Hydro-Quebec and was related to the Carleton wind farm. Commodity taxes and investment tax credits are receivable from the federal or provincial governments, following the development and construction of projects. An amount of $ 5,908,632 of the commodity taxes receivable at the end of 2008 was related to the Carleton wind farm. See Note 14 (c) for more details.

Receivables from an entity subject to significant influence are from subsidiaries of Innergex Power Income Fund in which the Corporation owns a 16.1 % interest.

The Corporation didn't record any allowance for doubtful accounts since, based on its experience, there is a low risk of doubtful accounts. The Corporation doesn't hold any specific guarantees for its accounts receivable.

6. Property, plant and equipment

			December 31, 2009	December 31, 2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	$	$	$	$
Hydroelectric facilities	180,776,797	3,247,257	177,529,540	51,730,976
Wind farm facility	68,277,690	2,944,186	65,333,504	67,432,791
Hydroelectric facility under construction	27,849,136	-	27,849,136	109,850,884
Other equipments	1,819,998	1,220,219	599,779	512,653
	278,723,621	7,411,662	271,311,959	229,527,304

Property, plant and equipment include capitalized interests of $ 5,640,476 ($ 3,437,688 in 2008).

7. Intangible assets

The Corporation's intangible assets are related to:

	Cost	Accumulated Amortization	December 31, 2009 Net Book Value	December 31, 2008 Net Book Value
	$	$	$	$
Hydroelectric facilities	29,980,442	931,036	29,049,406	9,049,073
Wind farm facility	13,611,026	641,734	12,969,292	13,546,854
Hydroelectric facility under construction	1,738,833	-	1,738,833	21,780,953
	45,330,301	1,572,770	43,757,531	44,376,880

8. Project development costs

	December 31, 2009	December 31, 2008
	$	$
		(Restated Note 3(a))
Projects under development	21,838,619	18,578,688
Intangibles related to projects under development	9,310,406	9,302,556
	31,149,025	27,881,244

During the year, the Corporation abandoned some projects due to the impossibility to develop them, while other projects faced delays. This resulted in an impairment of some projects in the development and management of sites segment.

9. Investment in an entity subject to significant influence

On December 6, 2007, the Corporation acquired 4,724,409 units representing 16.1 % of the units issued by Innergex Power Income Fund. The Corporation provides management and administration services to Innergex Power Income Fund as described in Note 21 and is represented on its Board of Trustees.

The equity interest acquired in Innergex Power Income Fund represents an investment subject to significant influence, under accounting rules, which is accounted for using the equity method from the date of the transaction, December 6, 2007. The investment was initially recorded at cost, and subsequently adjusted to recognize the Corporation's share of earnings or losses of the investee and reduced by distributions declared by the investee. The Corporation's share of Innergex Power Income Fund's net earnings or loss is adjusted to reflect the amortization of the fair value adjustments related to the fair value of the Corporation's share of the net identifiable asset, except for goodwill, of Innergex Power Income Fund acquired.

The total cost is allocated to the Corporation's share of net identifiable assets acquired on the basis of their fair values, using the purchase method of accounting.

The investment in Innergex Power Income Fund is detailed as follows:

	December 31, 2009	December 31, 2008
	$	$
Opening balance	57,052,056	63,144,213
Share of net earnings (loss)	3,365,954	(1,370,859)
Share of other items of comprehensive income	(4,317)	1,221
Distributions declared by Innergex Power Income Fund	(4,724,409)	(4,722,519)
Ending balance	55,689,284	57,052,056

The Corporation's share in the results of Innergex Power Income Fund for the year ended December 31, 2009 amounted to net earnings of $ 3,365,954 (loss of $ 1,370,859 in 2008) and is comprised of the following elements:

	December 31 2009	December 31, 2008
	$	$
Share of operating results of Innergex Power Income Fund	4,216,534	(520,279)
Amortization of intangibles	(1,173,214)	(1,173,214)
Adjustment related to the decrease of future income tax on intangibles	322,634	322,634
Share of net earnings (loss)	3,365,954	(1,370,859)

10. Goodwill

For the year ended December 31, 2009, the Corporation conducted an annual goodwill impairment test. The test was performed using a net present value of projects within the group of assets described in the accounting policy. Based on the result of this test, an impairment charge of $ 22,458,445 ($ 3,604,865 in 2008) was required in the development and management of sites segment. This impairment reflects the Corporation's estimated decline of value of the projects under development.

11. Bank Loan

The Corporation has an authorized credit facility which was increased during the year from $ 25,000,000 to $ 30,000,000 and secured by a hypothec on the universality of investments and receivables, excluding assets already pledged under non-recourse long-term debt. Financial assets securing the credit facility amount to approximately $ 50,900,000. The credit facility is renegotiable annually and bears interest at bankers' acceptances ("BA") rate plus 425 basis points. As at December 31, 2009, $ 12,300,000 ($9,750,000 in 2008) of this credit facility was drawn as cash advances, $ 11,724,019 ($ 7,321,700 in 2008) was used for the issuance of letters of credit and $ 3,900,000 ($ 4,174,385 in 2008) was reserved as collateral to secure bond forward contracts. As at December 31, 2009, the unused and available portion of the bank credit facility was $ 2,075,981 ($ 3,753,915 in 2008). For the year ended December 31, 2009, the Corporation had an interest expense of $ 195,699 ($ 26,916 in 2008). These amounts are presented under other (revenues) and expenses on the consolidated statement of loss. The Corporation also capitalized $ 807,258 ($ 147,391 in 2008) in interests paid on the bank loan under property, plant and equipment and project development costs on the balance sheet. The credit facility is subject to financial and non-financial covenants that may restrict its availability. Refer to Note 28 (d) for subsequent event.

12. Accounts payable and accrued liabilities

	December 31, 2009	December 31, 2008
	$	$
Trade and accrued liabilities	10,275,837	11,574,506
Current portion of construction holdbacks	245,029	291,065
Accounts payable to an entity subject to significant influence	3,080	153,668
	10,523,946	12,019,239

13. Derivative financial instruments

In order to mitigate the risk of any fluctuations in interest rates, the Corporation entered into seven bond forward contracts (nine in 2008) and two interest rate swaps, for a total debt amount covered of $ 185,655,346 ($ 180,277,084 in 2008). These instruments are accounted for on the balance sheet under derivative financial instruments and the variation in value is included in the consolidated statement of loss under gain or loss on derivative financial instruments. The counterparties to the bond forward contracts and the interest rate swap contract are major financial institutions; the Corporation does not anticipate any payment defaults on their part.

The estimated impact of an increase of 0.1 % in the references rates of the bond forwards contracts would increase the fair value of these instruments resulting in a gain of approximately $ 700,000 while a decrease of 0.1 % in the reference rates would decrease the fair market value resulting in a loss of approximately $ 700,000.

The estimated impact of an increase in swap rates curve of 0.1 % would increase the fair value of the interest rate swaps resulting in a gain of approximately $ 600,000. On the other hand, a decrease in swap rates curve of 0.1 % would result in a reduction of the fair market value of the interest rate swaps resulting in a loss of approximately $ 600,000.

Rutherford Creek Power Limited Partnership, a subsidiary of Innergex Power Income Fund, has agreed, following the expiry or termination of the Rutherford Creek power purchase agreement in June 2024, to pay to the Corporation royalties based on the achievement of certain revenue thresholds. This instrument is accounted for on the balance sheet under derivative financial instrument and the variation in value is included in the consolidated statement of loss under unrealized net (gain) loss on derivative financial instruments. The payment of the royalties is secured by the facility, but is subordinated to a $ 50,000,000 term loan.

The following is a summary of the financial derivative instruments:

Derivative financial instruments	**Royalties (Level 3)**	**Bond forward (Level 1)**	**Interest rate swap (Level 2)**	**Total**
	$	**$**	**$**	**$**
Assets - derivative financial instruments				
Balance as at December 31, 2007	663,492	-	-	663,492
Year 2008's variation	100,716	-	-	100,716
Balance as at December 31, 2008	764,208	-	-	764,208
Year 2009's variation	183,310	-	3,868,783	4,052,093
Balance as at December 31, 2009	947,518	-	3,868,783	4,816,301
Minus:				
Current portion	-	-	-	-
Balance of long-term assets as at December 31, 2009	947,518	-	3,868,783	4,816,301
Liabilities - derivative financial instruments				
Balance as at December 31, 2007	-	3,501,225	1,455,974	4,957,199
Year 2008's variation	-	15,853,051	1,912,828	17,765,879
Balance as at December 31, 2008	-	19,354,276	3,368,802	22,723,078
Year 2009's variation	-	(4,689,751)	(1,276,173)	(5,965,924)
Balance as at December 31, 2009	-	14,664,525	2,092,629	16,757,154
Minus:				
Current portion	-	14,664,525	2,092,629	16,757,154
Balance of long-term liabilities as at December 31, 2009	-	-	-	-

14. Long-term debt

	December 31, 2009	December 31, 2008
	$	$
Glen Miller Power, Limited Partnership (a)	15,500,000	16,500,000
Umbata Falls Limited Partnership (b)	24,782,833	21,266,000
Innergex CAR, L.P. (c)	50,872,527	64,407,084
Ashlu Creek Investments Limited Partnership (d)	94,000,000	64,500,000
Fitzsimmons Creek Hydro Limited Partnership (e)	15,100,000	-
Kwoiek Creek Resources Limited Partnership (f)	150,000	-
Deferred financing fees	(1,775,728)	(1,164,667)
	198,629,632	165,508,417
Current portion of long-term debt:		
Glen Miller Power, Limited Partnership (a)	1,000,000	1,000,000
Umbata Falls Limited Partnership (b)	434,626	176,307
Innergex CAR, L.P. (c)	2,557,470	15,054,557
Ashlu Creek Investments Limited Partnership (d)	932,800	-
Fitzsimmons Creek Hydro Limited Partnership (e)	72,024	-
Deferred financing fees	(356,781)	(236,881)
	4,640,139	15,993,983
	193,989,493	149,514,434

(a) Glen Miller Power, Limited Partnership

The long-term debt relates to a loan made to provide long-term financing. During 2006, the loan was converted to a term loan, consisting of sixty monthly blended payments of capital and interest based over a twenty-year period of amortization with a five-year term maturing in 2011. The capital repayments were waived for a five-year period unless the conditions required by the lender were not respected. The principal repayments were waived for as long as a threshold debt service coverage ratio was met. During the first quarter of 2008, this threshold was not met and, accordingly, principal repayments began during the third quarter of 2008 after an appropriate amortization schedule, consisting in a 5-year term loan, amortized over a period of 68 quarters starting July 1, 2008 with a final maturity date on December 19, 2025, was agreed upon with the lender. The term loan is set at a variable rate, which is equal to the BA rate plus 140 basis points for a total of 1.87 % as at December 31, 2009 (3.65 % in 2008), and the unamortized amount as at December 31, 2009 is $ 15,500,000. The principal repayments for the next year will amount to $ 1,000,000. On August 16, 2009, the agreement was amended to make available to Glen Miller Limited Partnership a letter of credit facility in an amount of $160,000. As at December 31, 2009, the facility was totally used to secure one letter of credit.

The long-term debt is secured by a first-ranking security interest in the amount of $ 20,400,000 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 as at December 31, 2009 is approximately $ 24,800,000.

(b) 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 $ 51,000,000 (the share of the Corporation is 49 %). The construction loan was converted into a term loan in the second quarter of 2009. The loan bear interest at a rate per annum equal to the BA equivalent rate swapped at a rate of 4.108 % since June 2009 plus 120 basis points for a total of 5.308 % as at December 31, 2009 (100 basis points for a total of 2.66 % in 2008). An amortization schedule, consisting in a 5-year term loan, amortized over a period of 100 quarters, was agreed with the lender and principal repayments started on September 30, 2009. Principal repayments for the next year will amount to $ 886,992 (the share of the Corporation is 49 %).

The unamortized amount as at December 31, 2009 is $ 50,577,182 (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 $ 1,200,000, until six months after commissioning and thereafter in a principal amount not exceeding $ 500,000 until five years after completion, which is defined as beginning six months after commissioning. As at December 31, 2009, an amount of $ 470,000 ($ 1,180,875 in 2008) has been used to secure two letters of credit (three in 2008).

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. As at December 31, 2009, the net book value of the property and assets of Umbata Falls Limited Partnership, totals approximately $ 79,600,000 (the share of the Corporation is 49 %).

(c) 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 $ 53,400,000. The construction loan was converted into a term loan in the second quarter of 2009. The loan advances bear interest at a rate per annum equal to the BA equivalent rate, swapped at a rate of 3.45 %, plus an applicable margin of 150 basis points for a total of 4.95 % as at December 31, 2009 (4.95 % in 2008). Including the financing fees, the effective rate raises up to 5.52 %.

An amortization schedule, consisting in a 5-year term loan, amortized over a period of 74 quarters, was agreed with the lender and principal repayment started on December 31, 2008. The unamortized amount as at December 31, 2009 is $ 50,872,527 and the principal repayments for the next year will amount to $ 2,557,470.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed $ 833,000. As at December 31, 2009, an amount of $ 832,200 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.

As at December 31, 2009, the net book value of the property and assets of Innergex CAR, L.P. totals approximately $ 88,100,000.

The lenders also agreed to make available to Innergex CAR, L.P. two short-term loans; i) the HQT substation loan and ii) the GST/PST loan.

i) HQT substation loan

The lenders made available a short-term loan, maturing on March 31, 2009, to Innergex CAR, L.P., in an amount of $ 7,300,000. The Corporation reimbursed that loan upon reception of the substation reimbursement by Hydro-Quebec TransEnergie ("HQT"). See Note 5 for more details.

ii) GST / PST loan

The lenders also made available a short-term loan, maturing on March 31, 2009, to Innergex CAR, L.P., in an amount of $ 5,500,000. The Corporation reimbursed that loan upon reception by the government agencies of the GST/PST paid on construction costs. See Note 5 for more details.

(d) 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 $ 110,000,000 of which $ 94,000,000 have been drawn as at December 31, 2009. The loan matures 15 years following conversion of the construction loan into a term loan. The loan advances are made in the form of BA pursuant to accommodation requests given by the borrower. Ashlu Creek Investments Limited Partnership shall pay interest on any BA equivalent advance at a rate per annum equal to the BA equivalent rate plus 100 basis points, for a total of 1.51 % as at December 31, 2009 (2.74 % in 2008). Interests on any BA equivalent advance shall be payable in advance on the first day of the interest period. Including the financing fees, the effective rate raises up to 1.54 %.

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 $ 3,000,000, 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 December 31, 2009 an amount of $ 1,940,200 ($ 2,879,054 in 2008) has been used to secure two letters of credit.

This loan is secured by a demand debenture in the principal amount of $ 175,000,000, 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.

As at December 31, 2009, the net book value of the property and assets of Ashlu Creek Investments Limited Partnership, totals approximately $ 152,000,000.

(e) 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 $ 24,000,000. The loan matures five years after conversion of the construction loan into a term loan. As at December 31, 2009, $ 15,100,000 was drawn. The loan advances bear interest at a rate per annum equal to the BA equivalent rate plus an applicable margin of 450 basis points for a total of 5.00 % as at December 31, 2009 (nil in 2008). Including the financing fees, the effective rate raises up to 5.61 %.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed $ 750,000 until six months after commissioning ("completion") and thereafter in an amount not to exceed $ 150,000 until five years after completion. As at December 31, 2009, an amount of $ 543,200 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 the equity interest in Fitzsimmons Creek Hydro Limited Partnership and its general partner.

As at December 31, 2009, the net book value of the property and assets of Fitzsimmons Creek Hydro Limited Partnership, which is under construction, totals approximately $ 31,200,000.

(f) 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 $ 20,000,000 and its partner up to an amount of $ 3,000,000. 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 $ 8,041,054.

(g) Principal repayments

As at December 31, 2009, the expected principal repayments required for the long-term debt in each of the forthcoming years are as follows:

	$
2010	4,640,139
2011	6,070,522
2012	6,346,779
2013	58,030,557
2014	25,462,112
Thereafter	115,764,559
Total	216,314,668

The "Thereafter" amount includes the accrual for acquisition of long-term assets as it will be financed by issuance of long-term debt.

(h) Accrual for acquisition of long-term assets

The accrual for acquisition of long-term assets is defined as long-term debt commitments that have been secured and that will be drawn upon to finance the Corporation's projects currently under construction or for which the construction is completed, but some costs remained to be paid. The accrual for acquisition of long-term assets is made of the following:

	December 31, 2009	December 31, 2008
	$	$
Umbata Falls Limited Partnership	-	2,054,330
Innergex CAR, L.P.	-	1,520,000
Ashlu Creek Investments Limited Partnership	13,768,844	10,546,564
Fitzsimmons Creek Hydro Limited Partnership	3,916,192	-
	17,685,036	14,120,894

15. Asset retirement obligations

Asset retirement obligations essentially derive from the Corporation's obligation to remove the assets from the wind power facilities after the term of the land leases. The wind farm facilities are constructed on lands under leases that expire 25 years after the commencement of electricity delivery. The Corporation estimates that the undiscounted payments required to settle the obligations over a period of 25 years, being in accordance with the land leases, which allows a two-year period after the end of the leases to put back the lands as they were before the commencement of the project, will total $ 3,260,359 as follows:

	2009	2008
	$	$
2033	3,260,359	3,260,359

The rate at which the cash flows have been discounted is 8.25 %.

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

	2009	2008
	$	$
Balance, beginning of year	453,452	-
Liability incurred	-	449,333
Liability settled	-	-
Accretion expense	37,579	4,119
Balance, end of year	491,031	453,452

16. Income taxes

The provision for income taxes shows an effective income tax rate different from the rate computed under Canadian income tax legislation. The reasons for the difference between the statutory rate and the effective rate are as follows:

	December 31, 2009	December 31, 2008
	$	$
		(Restated, Note 3 (a))
Loss before provision for income taxes	(10,911,826)	(48,615,335)
Losses allocated to minority interests in non taxable entities	-	5,000
Loss deductible	(10,911,826)	(48,610,335)
Canadian statutory tax rate	30.52%	30.90 %
Provision for income taxes computed under the statutory tax rate	(3,330,289)	(15,020,594)
Earnings taxable at a lower rate than the Canadian statutory tax rate	340,116	1,249,476
Reduction in future income tax rates	371,028	-
Non-deductible expenses	551,098	141,438
Impairment of goodwill not deductible for tax	6,737,997	1,113,903
Others	-	6,156
Provision for income taxes	4,669,950	(12,509,621)

The tax impact of temporary differences resulting in material future tax assets or liabilities is as follows:

	December 31, 2009	December 31, 2008
	$	$
Future income tax assets		(Restated, Note 3 (a))
Non-capital losses	3,827,562	4,287,401
Excess of tax basis of project development costs over their carrying value	5,205,303	4,075,873
Excess of tax basis over the carrying value of investments into subsidiaries and on entity subject to significant influence	-	1,019,589
Excess of tax basis of financing fees over their carrying value	2,157,429	3,003,245
Excess of tax basis of derivative financial instruments over their carrying value	3,971,201	6,893,495
Future income tax assets	15,161,495	19,279,603
Future income tax liabilities		
Excess of carrying value of intangible assets over their tax basis	6,646,341	8,811,072
Excess of carrying value of investment into subsidiaries and on entity subject to significant influence over their tax basis	390,231	-
Excess of carrying value of property, plant and equipment over their tax basis	6,431,140	4,252,514
Future income tax liabilities	13,467,712	13,063,586
Net future income tax assets	1,693,783	6,216,017

Reported in the financial statements

	December 31, 2009	December 31, 2008
	$	$
		(Restated Note 3(a))
Long-term future income taxes assets	6,673,488	10,992,537
Long-term future income taxes liabilities	4,979,705	4,776,520
Net future income taxes assets	1,693,783	6,216,017

As at December 31, 2009, the Corporation and its subsidiaries have income tax losses of approximately $ 13,900,000 ($ 14,500,000 in 2008), which may be used to reduce future years' taxable income. These losses expire up to 2030.

17. Share capital

(a) Share capital

Authorized

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

The following table shows the common shares issued:

	December 31, 2009		December 31, 2008	
	Number	**$**	**Number**	**$**
Beginning of year	23,500,000	229,472,343	23,500,000	228,807,842
Issuance costs reduction (net of $ 294,652 of income tax)	-	-	-	664,501
End of year	23,500,000	229,472,343	23,500,000	229,472,343

In 2008, the issuance costs accounted for in the initial public offering were reduced by a net amount of $ 664,501. This resulted in an increase in share capital.

(b) Contributed surplus and stock option plan

	December 31, 2009	December 31, 2008
	$	**$**
Beginning of year	1,693,929	130,302
Fair value of stock-based compensation	1,563,627	1,563,627
Stock options exercised	-	-
End of year	3,257,556	1,693,929

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 will be 2,350,000, representing 10 % of the issued and outstanding common shares. The number of common shares issuable to insiders under the stock option plan cannot at any time exceed 10 % of the issued and outstanding common shares and cannot within any one-year period exceed 10 % of the issued and outstanding common shares. Any common shares subject to an option that expires or terminates without having been fully exercised may be made the subject of 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. Subject to the discretion of the Board of Directors, options granted under the stock option plan will vest in four equal amounts on a yearly basis over the four years following the grant date.

	December 31, 2009		December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Outstanding - beginning of year	1,410,000	11	1,410,000	11
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding - end of year	1,410,000	11	1,410,000	11
Options exercisable - end of year	705,000	11	352,500	11

The following options were outstanding and exercisable as at December 31, 2009.

	Outstanding		Exercisable		
	Number of options	Exercise price	Number of options	Exercise price	Year of maturity
		$		$	
2009	1,410,000	11	705,000	11	2017

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. An amount of $ 1,563,627 ($ 1,563,627 in 2008) was recorded as stock-based compensation costs and credited to contributed surplus of the Corporation to account for the options granted during the year ended December 31, 2007. The following assumptions were used to estimate the fair value, at the date of grant, of the options issued to grantees:

Risk-free interest rate	4.3 %
Expected annual dividend	nil
Expected life of options	4 to 7 years
Expected volatility	29.7 % to 36 %
Weighted average fair value per option	$ 4.44

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

18. Warrants

On August 29, 2008 the Corporation issued 200,000 warrants, for a cash consideration of $ 175,000, entitling the holders to subscribe to up to 200,000 common shares. The warrants are exercisable within 24 months of the date of issuance at a strike price of $ 12.50 per warrant and will expire on August 29, 2010. All the warrants were still outstanding as at December 31, 2009.

19. Additional information to the Consolidated Statements of Loss

The Corporation benefited from refundable investment tax credit in an amount of $ 533,796 ($ 715,641 in 2008) that reduced the related expenses.

The Corporation revenues includes EcoEnergy subsidy in an amount of $ 1,071,016 ($ 100,917 in 2008).

20. Additional information to the Consolidated Statements of Cash Flows

Changes in non-cash operating working capital items

	December 31, 2009	December 31, 2008
	$	$
Accounts receivable	16,260,855	(3,800,148)
Prepaid and others	(761,882)	(913,562)
Accounts payable and accrued liabilities	606,716	(5,524,393)
	16,105,689	(10,238,103)
Additional information		
Interest paid	6,613,981	4,575,488
Income taxes paid	7,804	174,016
Non-cash transactions		
Capitalized deferred financing fees	24,307	-
Reduction of issuance costs	-	959,153
Decrease (increase) of unpaid property, plant and equipment	1,585,875	(1,134,750)
Decrease (increase) of unpaid development costs	516,132	(444,540)
Decrease (increase) of accrual for acquisition of long-term assets	3,564,142	(14,120,894)

The property, plant and equipment comprise an asset with no tax basis resulting in a decrease of future income tax liabilities of $ 142,228 as at December 2009 (increase of $ 799,098 as at December 31, 2008).

In 2008, the Corporation recorded a $ 1,140,000 expense in impairment of project development costs in respect of an accrual for a termination payment related to an impaired project. In 2009, half of this impairment was assumed by a third party. The Corporation recorded revenue of $ 570,000 under impairment of project development costs. The payment was receivable as at December 31, 2009.

21. Related party transactions

The Corporation has entered into the following transactions with entities under significant influence and related parties:

	December 31, 2009	December 31, 2008
	$	$
Management Agreement revenues (i)	1,892,508	2,039,135
Administration Agreement revenues (ii)	113,257	109,957
Services Agreement (iii)	-	-
Other services (iv)	37,676	59,600
	2,043,441	2,208,692
Receivables from entities subject to significant influence:		
Accounts receivable	770,553	845,147
Distributions receivable	393,732	393,543
	1,164,285	1,238,690
Accounts payable to a company subject to significant influence	3,080	153,688

These transactions were made in the normal course of business and have been recorded at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

(i) Management Agreement

Under the terms of the Management Agreement, the Corporation provides services to Innergex Power Trust ("IPT") a wholly-owned subsidiary of Innergex Power Income Fund ("the Fund"). The Corporation (i) supervises the operations of the facilities and administers the investments of IPT; (ii) assists IPT in the development, implementation and monitoring of a strategic plan for IPT; (iii) assists IPT in developing an annual business plan, which includes operational and capital expenditure budgets; (iv) assists IPT in developing acquisition strategies and investigation of potential acquisitions and analysis of feasibility of potential acquisitions; (v) supervises the carrying out of acquisitions, the disposition of assets and related financings required for such transactions; (vi) assists in connection with any financing of IPT or the Fund; and (vii) assists IPT with the preparation, planning and coordination of trustees' meetings.

Under the Management Agreement, the Corporation is entitled to reimbursement of its regular operating expenses incurred in connection with its duties, up to a maximum annual amount, which is subject to an annual increase equal to the inflation rate of the Consumer Price Index ("CPI"). The maximum annual chargeable amount for regular services was established at $ 999,343 for the year ending December 31, 2009 ($ 939,895 in 2008). An amount totaling $ 251,756 was invoiced in 2008 (nil in 2009) for services rendered for the acquisition of IHI Hydro Inc. and the Baie-des-Sables and Anse-à-Valleau wind farms. An amount of $ 158,058 ($ 112,377 in 2008) has also been invoiced for additional services not included in the Management Agreement.

The Corporation is also entitled to an annual incentive fee based on increases in distributable cash per trust unit of the Fund. The incentive fee is equal to 25 % of the annual distributable cash per trust unit of the Fund in excess of $ 0.925 per trust unit. The incentive fee related to increases in distributable cash per trust unit of the Fund is intended to provide the Corporation with an incentive to maximize distributable cash per trust unit. For the year ended December 31, 2009, $ 735,107 was received in incentive fees ($ 735,107 in 2008).

The Management Agreement expires in July 2030; it is subsequently renewable for successive five-year periods. The incentive fee is calculated on the distributable cash before income taxes related to the taxation of public trusts amendments adopted in 2007. The Management Agreement includes a reciprocal right to terminate the contract by paying monetary compensation to IPT.

(ii) Administration Agreement

Under the terms of the Administration Agreement, the Corporation provides certain administrative and support services to the Fund, including those necessary to (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation; (ii) provide investor relation services; (iii) provide or cause to be provided to unitholders of the Fund all information to which unitholders are entitled, including relevant information with respect to income taxes; (iv) call and hold meetings of unitholders of the Fund and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to unitholders of the Fund; (vi) attend to all administrative and other matters arising in connection with any redemptions of trust units of the Fund; and (vii) ensure compliance with the Fund's limitations on non-resident ownership.

All operating expenses incurred by the Corporation in connection with the provision of these services are for the account of the Fund up to a maximum annual amount, which is subject to an annual increase equal to the inflation rate of the CPI. The maximum annual chargeable amount was established at $ 113,257 for the year ending December 31, 2009 ($ 109,957 in 2008). The Corporation is also entitled to reimbursement of reasonable out-of-pocket expenses incurred on behalf of the Fund such as legal and auditing expenses. The Administration Agreement expires in July 2030; it is subsequently renewable for successive five-year periods.

(iii) Services Agreement

Under the Services Agreement, the Corporation supervises the Fund's facilities in accordance with prudent industry practices and with an annual operating plan developed by the Corporation and approved by the Fund. The services provided by the Corporation include implementing and making continuous improvements to the preventive maintenance program; monitoring the Fund's facilities; making routine scheduled inspections; carrying out routine scheduled and unscheduled maintenance required for the proper operation of the Fund's facilities producing, maintaining and storing all operating and maintenance logs; maintaining all facilities-related drawings and specifications; preparing accurate accounting and administrative records and reports; maintaining licenses, approvals, and permits; and implementing additional measures relating to the operation, maintenance, and management of the Fund's facilities, including carrying out major overhauls and making capital asset improvements as required. The Services Agreement expires in July 2030; it is subsequently renewable for successive five-year periods. No amount was invoiced under this agreement in 2009 and 2008.

(iv) Other services

The Corporation also provides services to the operators of the Anse-à-Valleau and the Baie-des-Sables wind farms. These fees are in connection to follow-ups on construction and operations of the wind farms. For the year ended December 31, 2009, $ 37,676 was charged as other services ($ 59,600 in 2008). The amounts shown are equal to the 38 % portion of the projects owned by the Fund.

22. Financial instruments

(a) Fair value of financial instruments

The Corporation's derivatives transactions are accounted for on a fair value basis and are comprised of non-speculative interest rate swaps and bond forwards to hedge interest rate exposures. These derivatives are valued using either industry standard or internally developed valuation models. Where applicable, these models use market-based observable inputs including interest-rate-yield curves, volatility of certain prices or rates and credit spreads. In certain cases, market based observable inputs are not available and, in those cases, judgment is used to develop assumptions used to determine fair values.

Fair value estimates are made of specific points in time using available information about the financial instrument in question. These estimates are subjective in nature and often cannot be determined precisely.

The fair value of the interest rate swap contracts is based on discounted cash flows, using interest-rate-yield curves increased by credits spreads ranging from 0.8% to 1.6%. The fair value of the royalties agreement is based on discounted cash flows, using a 15 % discount rate.

The fair value of cash and cash equivalents, accounts receivable, reserve accounts, bank loan and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturities.

The carrying values of the floating-rate long-term debts (including the accrual for acquisition of long-term assets) are approximately $ 17,000,000 lower than their fair market values taking into account the swap curve increased by a risk premium of 1.31 % to 2.07 %.

(b) Interest rate risk

The Corporation's interest rate risk management's objective is to mitigate risk exposures to a level consistent with its risk tolerance. Interest rate risk is the risk related to the earnings of the Corporation that arises from fluctuation in interest rates and the degree of volatility of these rates. During the course of business, the Corporation uses credit facilities to finance its activities. The Corporation uses interest rate bond forward contracts to reduce its exposure to interest rate risk. The Corporation does not hold or issue financial instruments for trading purposes.

During 2009, Umbata Falls Limited Partnership terminated its $35,000,000 bond forward contracts for a cash consideration of $3,055,000 and an amount of $1,660,000 was rolled in an interest rate swap. Umbata Falls Limited Partnership entered into an amortizing swap contract maturing in June 2034 allowing it to pay a fixed interest rate of 4.108 % effective since June 30, 2009.

During 2008, the Corporation entered into an amortizing interest rate swap contract, regarding the Innergex CAR, L.P. long-term debt, in an amount of $ 53,400,000, maturing in March 2027, allowing it to eliminate its exposure to floating interest rates. This contract allows the Corporation to pay a fixed interest rate equivalent to 3.45 % effective since December 31, 2008.

The portion of the Corporation's floating-interest long-term debt not covered by a swap contract amounts approximately to $ 125,000,000. A 1 % fluctuation in interest rates would have an annual impact of approximately $ 1,250,000 on the Corporation's results before taxes. To mitigate the interest rate risk on the non-swapped debt, the Corporation entered into bond forwards contracts. The value of these contracts varies inversely with interest rates. It is the intention of the Corporation to call or extend these contracts or enter into new contracts in order to match the maturity of the underlying debt and protect the economic value of the projects.

The terms of the contracts are as follows:

Face value of contracts reducing risk of interest rate fluctuations	**December 31, 2009**	**December 31, 2008**
	$	**$**
Bond forwards		
Six bond forwards (six in 2008) with a yield from 4.66 % to 5.63 %, maturing on January 25, 2010. (See Note 28 (e))	85,000,000	85,000,000
A bond forward with a yield at 5.63 %, maturing on January 14, 2010, with collateral of $ 4,782,660 ($ 4,591,385 in 2008) that was put down towards the bond. (See Note 28 (e))	25,000,000	25,000,000
Two bond forwards cancelled on January 28, 2009 (total of $ 35,000,000, share of 49 %) for which a loss of $ 1,496,950 (total of 3,055,000, share of 49 %) was realized.	-	17,150,000
	110,000,000	127,150,000
Interest rate swap		
An amortizing interest rate swap bearing interest at 4.108 %, maturing in June 2034 (total of $ 50,577,182, share of 49 %) (See Note 14 (b) for more details).	24,782,819	-
An amortizing interest rate swap bearing interest at 3.45 %, maturing on March 31, 2027 (See Note 14 (c) for more details).	50,872,527	53,127,084
	185,655,346	180,277,084

(c) Credit risk

The credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract.

The cash and cash equivalents are held at large Canadian financial institutions with high credit ratings.

The accounts receivable and their related risks are described in more details in Note 5.

The derivative financial instruments and their related risks are described in more details in Note 13.

(d) Liquidity risk

The liquidity risk is related to the sufficiency of liquid assets that permits the Corporation to meet the payments of its liabilities as they occur. Certain financial restrictive clauses could prevent the Corporation from having access to the cash and cash equivalents of its subsidiaries.

The Corporation has a negative working capital at year-end. However, it is not expected that the bank loan will be repaid within the next year. In addition, most of the derivative financial instruments are expected to have their term extended. The bank loan facility, described in Note 11, also allows the Corporation to obtain additional funds on short notice if needed. See Note 2 - *Liquidity* and Note 28 *Subsequent Events* for additional information.

The table that follows presents an analysis of the maturity of the financial liabilities:

	Up to 3 months	More than 3 months but less than a year	More than a year but less than five years
	$	$	$
Bank loan	12,300,000	-	-
Interests on bank loan	117,271	-	-
Accounts payable and accrued liabilities	10,523,946	-	-
Derivative financial instrument short-term	15,264,228	1,492,926	-
Interest on long-term debt	2,699,614	8,029,160	36,137,671
Current portion of long-term debt	1,305,798	3,334,341	-
Long-term debt	-	-	95,909,970
Total	42,210,857	12,856,427	132,047,641

(e) Market risk

The market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk and interest rate risk, which are described separately, and the other price risk.

The sale of electricity is made pursuant to long-term agreements where the offtakers are committed to take and pay for the total production, up to certain annual limits. The inflation clauses of the sale price of electricity are normally allowing the Corporation to cover its increases of variable operating expenses.

(f) Currency risk

The currency risk relates to fluctuations in the US dollar against the Canadian dollar. The Corporation does incur expenses, related to the construction of wind farms, payable in US dollars. However, the price at which it will sell its electricity to Hydro-Quebec is adjusted to reflect the fluctuations in the US dollar and as such the Corporation's net financial risks is minimal.

23. Commitments and guarantee

a. Delivery of electricity pursuant to the electricity purchase agreements

The Corporation's subsidiaries or joint ventures are contractually committed to sell all of the electricity that will be produced to either British Columbia Hydro and Power Authority, Hydro-Quebec or Ontario Power Authority for periods extending from 20 to 40 years after commissioning.

Glen Miller Power, Limited Partnership has committed to sell all of the electricity it generates to Ontario Power Authority under a long-term contract expiring in 2025.

Umbata Falls Limited Partnership has committed to sell all of the electricity it generates to Ontario Power Authority under a long-term contract expiring in 2028.

Innergex CAR, L.P. has committed to sell all of the electricity it generates to Hydro-Quebec under a long-term contract expiring in 2028.

Ashlu Creek Investments Limited Partnership has committed to sell all of the electricity it generates to British Columbia Hydro and Power Authority under a long-term contract expiring in 2039.

Fitzsimmons Creek Hydro Limited Partnership has committed to sell all of the electricity it generates to British Columbia Hydro and Power Authority under a long-term contract expiring in 2050.

b. Wind farm facilities

Construction agreements

Subsidiaries or joint ventures of the Corporation entered into electricity purchase agreements with Hydro-Quebec. In order to fulfill its obligation under these agreements, the Corporation will need to develop and construct wind powered facilities. Collectively with TransCanada Energy Ltd. (“TransCanada”) (the share of the Corporation is 38 %), the Corporation entered into various agreements related to the acquisition of the turbines, the construction and the operation of the wind farms.

The subsidiaries or joint ventures are also committed under options on leases for projects under development.

Separation agreement

The Corporation is an undivided owner of a 38 % interest in four wind projects. Furthermore, the Corporation indirectly owns, through its 16.1 % investment in units of the Fund, a portion of the Fund’s 38 % interest in two wind farms. TransCanada is the other undivided owner of the remaining 62 % interest in all of the six wind projects. The Corporation and TransCanada have entered into a separation agreement which describes the process that will apply should one of the Corporation or TransCanada request separation of the wind projects held in undivided joint ownership. Once two of the projects have reached final completion, the separation agreement allows one of the undivided owners, within the 31st and the 60th day following the date of final completion of the second project (i.e., the L’Anse-à-Valleau wind farm), to request the separation of all of the wind projects so held in undivided joint ownership. Final completion date of the L’Anse-à-Valleau wind farm remains to be determined. Should a request for separation be presented, the Fund will be allocated the wind farm that it holds in undivided joint ownership having the lowest fair market value, and the other will be attributed to TransCanada. The four remaining projects will be allocated between the Corporation and TransCanada, based on the total number of MW of these projects and their anticipated final completion dates. As such, each of the Corporation and TransCanada would then own 100 % of some of the four projects, which would be close to their current respective overall interests in the four projects. In each case, the parties will then each have to pay an amount to compensate for the difference in value.

c. Glen Miller facility

Lease agreement

Glen Miller Power, Limited Partnership entered into a thirty-year lease agreement ending in December 2035 for the site that is in commercial operation. The lease has a 15-year extension option upon terms and conditions to be negotiated.

Glen Miller Power, Limited Partnership is committed to remit the facility to the lessor of the site, at the end of the lease agreement, for no consideration.

d. Umbata Falls facility

Dissolution of the Partnership

Twenty-five years after the beginning of the operations, the Partnership will be dissolved. Upon the dissolution of the Partnership, the property and assets of the Partnership shall be transferred to the other partner for no consideration.

e. Ashlu Creek facility

Construction contracts

Ashlu Creek Investments Limited Partnership entered into several contracts in order to construct an hydroelectric power generating facility. The facility reached commercial operation on November 26, 2009.

Participation agreement

Pursuant to an agreement with Ashlu Creek Investments Limited Partnership, the Squamish First Nation is entitled to a royalty based on revenues of the Ashlu Creek Project commencing on the commercial in-service date. The Squamish First Nation is also entitled to an incremental share of gross revenues exceeding a yearly threshold of gross revenues set out in the agreement. The agreement also requires the assets of the Ashlu Creek Project to be transferred to the Squamish First Nation for a nominal price after 40 years of commercial operation.

f. Fitzsimmons Creek facility

Construction contracts

Fitzsimmons Creek Hydro Limited Partnership entered into several contracts in order to construct an hydroelectric power-generating facility.

g. Kwoiek Creek facility

Construction agreement

Following a satisfactory result from the interconnection study, the Corporation will pay to Kwoiek Creek Resources Inc., a non-related company, a compensation on the first day of the second year of the construction phase.

Royalty agreement

Kwoiek Creek Resources Limited Partnership entered into an agreement to pay to Kwoiek Creek Resources Inc. an annual royalty which is based on a percentage of the gross revenues, less project costs, for the first 20 years after the date of commencement of commercial operations of the Kwoiek Creek Project and an increased royalty for the 20 years thereafter.

For the first 20 years of the operating phase, the partnership will not pay any interest on its subordinated debt nor any distribution on the preferred units, which are owned by the Corporation or the other Partner, unless the royalty has been paid.

Dissolution of the partnership

Forty years after the beginning of the operations, Kwoiek Creek Resources Limited Partnership will be dissolved (unless otherwise dissolved at an earlier date). Upon the dissolution, the property and assets shall be distributed to the other Partner.

h. Operating leases

The Corporation is engaged under long-term operating leases of premises which will end in 2011 and 2012.

i. Summary of commitments

As at December 31, 2009, expected scheduling of commitments payments are:

	Hydroelectric production	Wind farms production	Development and management of sites	Total
	$	$	$	$
2010	576,764	636,582	949,343	2,162,689
2011	179,096	647,726	1,164,383	1,991,205
2012	181,487	659,093	1,227,591	2,068,171
2013	183,936	667,771	33,836	885,543
2014	186,448	129,799	34,473	350,720
Thereafter	4,185,452	3,502,056	2,513,261	10,200,769
Total	5,493,183	6,243,027	5,922,887	17,659,097

24. Capital Disclosures

The Corporation's objectives when managing its capital are twofold: i) to maintain sufficient cash and cash equivalents to pursue its growth strategy; and, ii) to maintain adequate financial leverage and manage financial risks.

The Corporation's capital is composed of cash and cash equivalents, reserve accounts, bank loan, long-term debts and shareholders' equity.

The Corporation uses equity primarily to finance the development of projects. The Corporation uses long-term debt to finance the construction of its facilities. The Corporation expects to finance 70 % to 85 % of its construction costs through non-recourse long-term debt financing.

Future development and construction of new facilities and the development of the development projects and the prospective projects and other capital expenditures will be financed out of cash generated from the Corporation's operating facilities, investment in the Fund, borrowings and/or issuance of additional equity. To the extent that external sources of capital, including issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make necessary capital investments to construct new or maintain existing project facilities will be impaired. There is no certainty that sufficient capital will be available on acceptable terms to fund further development or expansion.

The Corporation maintains its generating capacity by investing the necessary funds to maintain and continually upgrade its equipment. The Corporation also invests approximately $ 268,500 on an annual basis in a major maintenance reserve account in order to fund any major maintenance of hydroelectric facilities or wind farms which may be required to preserve the Corporation's generating capacity.

The Corporation has a hydrology/wind reserve account. This account could be used in the event that the revenues for any given year is less than expected, due to normal changes in hydrology or wind conditions or other unpredictable factors.

Following the renewal of the bank loan described in Note 28 (d), the Corporation needs to maintain a minimum tangible net worth, a margining requirement ratio and an interests coverage ratio. If the ratios are not met, the lender has the ability to recall the bank loan.

Regarding the long-term debt of Glen Miller, the Corporation needs to maintain a minimum debt coverage ratio. If the ratio is not met, the lender has the ability to recall the debt.

All debt covenants are monitored on a regular basis by the Corporation.

During the year, the Corporation and its subsidiaries met all the financial and non-financial conditions related to their credit agreements.

The Corporation's capital management objectives, policies and procedures have remained unchanged since the last period.

25. Segment Information

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

The hydroelectric generation and the wind power generation segments sells electricity produced from hydroelectric and wind farm facilities to publicly owned utilities. The development and management of sites segment explores potential sites, develops them to the operational stage and manages them.

The accounting policies of the 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 development and management of sites segment to the hydroelectric generation segment or the wind power generation segment are accounted for at cost.

The Corporation's reportable segments conduct their operations and activities using different teams, as each segment requires different skills.

	Year ended December 31, 2009			
Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Development and Management of Sites**	**Total**
	$	**$**	**$**	**$**
Gross operating revenues from external clients	9,463,574	10,491,707	5,685,770	25,641,051
Expenses:				
Operating expenses	716,657	1,025,311	-	1,741,968
Stock-based compensation	-	-	1,563,627	1,563,627
General and administrative expenses	135,042	233,944	5,382,925	5,751,911
Prospective projects expenses	-	-	2,305,931	2,305,931
Earnings (loss) before interests, income taxes, depreciation and amortization and other items	8,611,875	9,232,452	(3,566,713)	14,277,614
As at December 31, 2009				
Goodwill	5,949,001	2,104,000	-	8,053,001
Total assets	221,855,088	90,173,267	132,607,353	444,635,708
Acquisition of capital assets since the beginning of the year	-	554,669	49,801,089	50,355,758

Over the past year, transfer of assets (from) to the segments, upon commissioning of the Ashlu Creek facility was the following:

Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Development and Management of Sites**	**Total**
Long-term assets	153,619,558	-	(153,619,558)	-
Goodwill	5,216,001	-	(5,216,001)	-
Total assets	157,311,858	-	(157,311,858)	-

	Year ended December 31, 2008 (Restated, Note 3 (a))			
Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Development and Management of Sites**	**Total**
Gross operating revenues from external clients	3,594,469	1,336,989	935,077	5,866,535
Expenses:				
Operating expenses	525,094	88,880	-	613,974
Stock-based compensation	-	-	1,563,627	1,563,627
General and administrative expenses	48,303	73,056	4,943,249	5,064,608
Prospective projects expenses	-	-	3,703,378	3,703,378
Earnings (loss) before interests, income taxes, depreciation and amortization and other items	3,021,072	1,175,053	(9,275,177)	(5,079,052)
As at December 31, 2008 (Restated, Note 3 (a))				
Goodwill	733,000	2,104,000	27,674,446	30,511,446
Total assets	63,768,010	102,839,825	265,092,977	431,700,812
Acquisition of capital assets since the beginning of the year	362,536	-	128,103,484	128,466,020

In 2008, transfer of assets (from) to the segments, upon commissioning of the Umbata Falls and the Carleton facilities, were the following:

Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Development and Management of Sites**	**Total**
Long-term assets	37,406,908	83,441,351	(120,848,259)	-
Goodwill	733,000	2,104,000	(2,837,000)	-
Total assets	38,345,259	103,197,530	(141,542,789)	-

Following the adoption of CICA Handbook section 3064, described in Note 3 a) i), prospective projects expenses are now deducted in the computation of the earnings (loss) before interests, income taxes depreciation and amortization and other items.

26. Investments in joint ventures

Joint ventures' activities

The consolidated financial statements of the Corporation include its proportionate share of assets, liabilities, revenues and expenses of the joint ventures' activities. The amounts included in these financial statements, with respect to joint ventures, are as follows:

	December 31, 2009	December 31, 2008
	$	$
Assets		
Current	10,480,985	18,667,413
Long-term	105,791,442	104,121,238
	116,272,427	122,788,651
Liabilities		
Current	3,880,737	5,232,256
Long-term	24,839,238	26,894,660
	28,719,975	32,126,916
Earnings		
Revenues	15,736,366	1,839,992
Derivative financial instruments	1,542,607	(2,201,561)
Expenses	(5,883,154)	(716,642)
Income taxes	(5,444)	(4,701)
Net income (loss)	11,390,375	(1,082,912)
Cash Flows		
Operating activities	19,255,201	(13,203,714)
Financing activities	(2,055,422)	(10,003,686)
Investing activities	(7,592,556)	(46,333,648)
Non-cash transactions		
Unpaid property, plant and equipment	1,025,460	3,468,010
Unpaid development costs	111,116	16,588
Accrual for acquisition of long term assets	-	3,574,330

27. Comparative figures

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

28. Subsequent Events

(a) Strategic Combination of the Fund and Innergex

On February 1, 2010, the Fund and the Corporation announced that they had entered into a definitive agreement to undertake a strategic combination of the two entities whereby the Fund acquires the Corporation by way of a reverse take-over, thereby effecting at the same time the conversion of the Fund to a corporation.

The unitholders of the Fund will exchange their units for shares of the Corporation based on an exchange ratio of 1,460 shares for each Fund unit. When the combination has been completed, the Fund’s current unitholders will hold a 61 % interest in the Corporation. The Corporation’s current shareholders will then hold the remaining interest of 39 %.

The achievement of the combination is subject to obtaining the necessary approvals from the Fund’s unitholders and the shareholders of the Corporation and the other usual terms and conditions. The closing should be before the end of March 2010.

This transaction is more fully described in the joint information circular filed before the regulatory authorities on February 17, 2010.

(b) Issuance of Convertible Unsecured Subordinated Debentures and over-allotment

On March 8, 2010, the Corporation announced that it had completed an offering of extendible convertible unsecured subordinated debentures in the aggregate principal amount of $70.0 million (the “Debentures”). The Debentures have an initial maturity date of April 30, 2010 which will automatically be extended to April 30, 2017 upon the closing of the Combination. The Debentures bear interest at a rate of 5.75% per annum, payable semi-annually, and are convertible at the option of the holder into common shares (“Common Shares”) of the Corporation at a conversion rate of 93.8967 Common Shares per $1,000 principal amount of Debentures, which is equal to a conversion price of $10.65 per Common Share.

On March 16, 2010, the Corporation announced that it has closed the over-allotment option granted to the underwriters on March 8, 2010, to purchase an additional $ 10.5 million principal amount of the Debentures. Combined with the Corporation’s March 8, 2010, offering of $ 70.0 million principal amount of Debentures, the over-allotment option brings the aggregate gross proceeds of the offering to $ 80.5 million.

(c) Fitzsimmons Creek Project

On January 26, 2010, the 7.5 MW Fitzsimmons Creek hydroelectric facility began commercial operations.

(d) Bank loan

On January 27, 2010, the Corporation extended the term of its revolving credit facility from February 27, 2010 to December 30, 2010. The maximum amount available was increased from $ 30,000,000 to $ 40,000,000.

(e) Bond forwards

On February 25, 2010, the six bond forwards described in Note 22 (b), totalling $ 85,000,000 were renewed until March 29, 2010.

On March 16, 2010, the $ 25,000,000 bond forward described in Note 22 (b) was renewed until March 29, 2010.

(f) 2008 British Columbia Clean Power Call

On March 11, 2010, British Columbia Hydro and Power Authority announced that three of the Corporation’s hydroelectric prospective projects, totalling 113 MW, out of the five prospective projects submitted under the 2008 British Columbia Clean Power Call had been selected for Power Purchase Agreements (“PPA”) awards. The three selected prospective projects are Upper Lillooet River, Boulder Creek and North Creek. Subject to the British Columbia Utilities Commission’s approval, the PPAs will allow the Corporation to enter into the development phase, which involves consultation with stakeholders as well as obtaining the relevant permits. The Corporation owns a 66⅔ % ownership interest in these three prospective projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2009

This Management's Discussion and Analysis ("MD&A") has been prepared as at March 22, 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 year ended December 31, 2009. This MD&A should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the financial year ended December 31, 2009. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Corporation reports its results in Canadian dollars. Certain amounts included in this MD&A are rounded to make reading easier. These rounded numbers may affect certain calculations.

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 and annual filings are being prepared; and (ii) the information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.
- Internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP applicable to the Corporation.

In accordance with *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have evaluated the effectiveness of the Corporation's DC&P and ICFR as at December 31, 2009 and have concluded that they were effective and that there were no material weakness relating to the DC&P and ICFR. During the year ended December 31, 2009, 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 discussed in this MD&A under the "Risk and Uncertainties" heading and include execution of strategy, capital resources, derivative financial instruments, current economic and financial crisis, hydrology and wind regimes, investment in the Fund (as hereinafter defined), construction and design, development of new facilities, project performance, equipment failure, interest rates and refinancing risks, financial leverage and restrictive covenants, separation agreement and the relationship with public utilities. 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 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 year ended December 31, 2009

OVERVIEW

Strategic Combination of Innergex Power Income Fund and Innergex

On February 1, 2010, Innergex Power Income Fund (the "Fund"), a trust listed on the Toronto Stock Exchange ("TSX") under the symbol IEF.UN, and Innergex announced that they had entered into a definitive agreement to undertake a strategic combination (the "Combination") of the two entities whereby the Fund acquires Innergex by way of a reverse takeover, thereby effecting at the same time the Fund's conversion to a corporation. The Combination will create a pure play corporation that will be one of the largest independent renewable power producers in Canada. For more information about the Combination, please refer to the "Subsequent Events" section of this MD&A.

General

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

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

- five operating facilities with an aggregate net installed capacity of 115.8 MW (gross 197.9 MW). They consist of four hydroelectric facilities and one wind farm, with aggregate net installed capacities of 74.2 MW (gross 88.4 MW) and 41.6 MW (gross 109.5 MW) respectively. These facilities, commissioned between December 2005 and January 2010, have a weighted average age of approximately 1.0 year. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 24.1 years;

- four development projects with an aggregate net installed capacity of 127.6 MW (gross 319.9 MW) for which PPAs with public utilities have been secured. Construction is expected to begin on three of these projects in 2010 and on the remaining project in 2011. The projects are expected to reach the commercial operation stage in 2011 and 2012;

- a net capacity of more than 1,600 MW (gross 1,800 MW) in Prospective Projects that are at various stages of development; and

- a direct 16.1% interest in the Fund, which indirectly owns interest in ten hydroelectric power plants and two wind farms with a total net installed capacity of 210 MW (gross capacity of 340 MW).

The Corporation's cash flow sources are diversified. First, as owner of interests in four operating hydroelectric facilities and one operating wind farm, the Corporation receives revenues from the electricity generated by these facilities. Second, as the owner of a 16.1% interest in the Fund, the Corporation receives stable monthly cash distributions. Third, as manager of the Fund, the Corporation receives annual management, administration and incentive fees. Fourth and last, as a developer of renewable energy facilities, the Corporation expects its revenues from electricity generation to increase in the years to come as some projects under development reach the commercial operation stage.

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 next page diagrams the Corporation's direct and indirect interests in the Operating Facilities, Development Projects and Prospective Projects.

INNERGEX
Énergie renouvelable
Renewable Energy

Management Agreements

Operating Facilities

16.1%

Innergex Power Income Fund

Hydro
- 100% Rutherford Creek (49.9 MW)
- 100% Horseshoe Bend (9.5 MW)
- 100% Windsor (5.5 MW)
- 100% Batawa (5.0 MW)
- 100% Montmagny (2.1 MW)
- 100% St-Paulin (8.0 MW)
- 100% Chaudière (24.0 MW)
- 100% Portneuf-1 (8.0 MW)
- 100% Portneuf-2 (9.9 MW)
- 100% Portneuf-3 (8.0 MW)

Wind
- 38% Baie-des-Sables (109.5 MW)
- 38% Anse-à-Valleau (100.5 MW)

Hydro
- 100% Glen Miller (8.0 MW)
- 49% Umbata Falls (23.0 MW)
- 100% Ashlu Creek (49.9 MW)
- 66⅔% Fitzsimmons Creek (7.5 MW)

Wind
- 38% Carleton (109.5 MW)

Development Projects

Hydro under construction

No projects under construction

Wind, under construction

No projects under construction

Hydro, other
- 50% Kwoiek Creek (49.9 MW)

Wind, other
- 38% Montagne-Sèche (58.5 MW)
- 38% Gros Morne (Phase I) (100.5 MW)
- 38% Gros Morne (Phase II) (111.0 MW)

Prospective Projects

Hydro
- 100% Kaipit (9.9 MW)
- 100% Kokish (9.9 MW)
- 48% Kipawa (42.0 MW)
- 66⅔% Creek Power Inc. (195 MW)
  - Hurley River (46.0 MW)
  - Upper Lillooet (74.0 MW)
  - Gun Creek (36.0 MW)
  - Boulder Creek (23.0 MW)
  - North Creek (16.0 MW)
- 66⅔% Others Creek Power Inc. (50.0 MW)

Wind
- 100% Wind in Quebec (836 MW)
  - Roussillon (108.0 MW)
  - Kamouraska (124.5 MW)
  - Saint-Constant (70.0 MW)
  - Club des Hauteurs (195.5 MW)
  - Haute-Côte-Nord Est (170.0 MW)
  - Haute-Côte-Nord Ouest (168.0 MW)
- 100% Wind in B.C. (475.0 MW)
  - Carp Forest
  - Crater Mountain
  - Poplar
  - Nulki Hills
  - Tatuk
  - Trachyte
  - Vancouver Island Range
- 70% Wind in QC - Community (100 MW)
- 100% Wind in Ontario - FIT (215 MW)

	Operating Facilities	Development Projects	Prospective Projects
Hydro			
Gross capacity:	218.3 MW	49.9 MW	306.8 MW
Net capacity[1]:	95.1 MW	24.9 MW	203.3 MW
Wind			
Gross capacity:	319.5 MW	270.0 MW	1,626.0 MW
Net capacity[1]:	54.5 MW	102.6 MW	1,596.0 MW
Total			
Gross capacity:	537.8 MW	319.9 MW	1,932.8 MW
Net capacity[1]:	149.5 MW	127.5 MW	1,799.3 MW

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

OPERATING FACILITIES

The Corporation's ownership share in the 17 Operating Facilities consist of:

- a 100% interest in the 8.0 MW Glen Miller hydroelectric facility;
- a 49% interest in the 23.0 MW Umbata Falls hydroelectric facility;
- a 38% interest in the 109.5 MW Carleton wind farm;
- a 100% interest in the 49.9 MW Ashlu Creek hydroelectric facility;
- a 66⅔% interest in the 7.5 MW Fitzsimmons Creek hydroelectric facility; and
- interests in 12 Operating Facilities (total net installed capacity of 210 MW) held through its 16.1% direct interest in the Fund.

Glen Miller Facility

The Glen Miller facility is an 8.0 MW run-of-river hydroelectric facility located on the Trent River in Trenton, Ontario, with an estimated yearly energy output of 41,606 megawatt-hours ("MW-hr"). Construction of this facility began in January 2004 and was completed in December 2005. The Glen Miller facility has a PPA with the Ontario Power Authority ("OPA") for all of the power it produces until December 19, 2025. On January 1 of each year, a portion equal to 15% of the price of electricity purchased under the Glen Miller PPA is indexed to the percentage increase or decrease in the consumer price index ("CPI"). The average price of electricity delivered to the OPA in 2009 was $67.12 per MW-hr ($67.47 per MW-hr in 2008). The Corporation owns 100% of this project.

Umbata Falls Facility

The Umbata Falls facility is a 23.0 MW run-of-river hydroelectric facility located on the White River, a tributary of Lake Superior, approximately 30 kilometres southeast of Marathon, Ontario. Its estimated yearly energy output is 109,102 MW-hr. Construction of the Umbata Falls project began in June 2006 and was completed on November 12, 2008. The Umbata Falls project has a PPA with the OPA for all of the power it produces until November 12, 2028. On January 1 of each year during the term of the PPA, a portion equal to 15% of the price of electricity purchased under the PPA is indexed to the percentage increase or decrease in the CPI. The average price of electricity delivered to the OPA in 2009 was $83.40 per MW-hr ($83.51 per MW-hr from November 12, 2008, to December 31, 2008), including payments received from the Federal government's ecoENERGY Initiative intended to support renewable energy in Canada. The ecoENERGY Initiative provides a $10 per MW-hr incentive payment for the facility's first ten years of operation. The Corporation owns a 49% interest in this project.

Carleton Wind Farm

The Carleton wind farm is a 109.5 MW facility located in the Town of Carleton-sur-Mer and the Regional County Municipality of Bonaventure, Québec. Its estimated yearly energy output is 340,523 MW-hr. Construction of the Carleton project began in October 2007 and was completed on November 22, 2008. The Carleton wind farm has a PPA with Hydro-Québec for all of the electricity produced by the project until November 22, 2028. On January 1 of each year during the term of the PPA, a portion equal to approximately 18% of the price of electricity purchased under the PPA is indexed to the percentage increase or decrease in the CPI. The average price of electricity delivered to Hydro-Québec in 2009 was $80.59 per MW-hr ($80.37 per MW-hr from November 22, 2008, to December 31, 2008), including net payments received from the ecoENERGY Initiative. As stipulated in the PPA, Hydro-Québec Distribution is entitled to 75% of the payments received by the Carleton wind farm under the ecoENERGY Initiative. The Corporation owns a 38% interest in this project.

Ashlu Creek Facility

The Ashlu Creek facility is a 49.9 MW run-of-river hydroelectric facility located on Ashlu Creek, a tributary of the Squamish River, approximately 35 kilometres northwest of Squamish, British Columbia ("B.C."). Its estimated yearly energy output is 265,000 MW-hr. Construction at the Ashlu Creek project began in August 2006 and was completed on November 29, 2009. The Ashlu Creek project has a PPA with British Columbia Hydro and Power Authority ("BC Hydro"), for all of the power it produces until November 29, 2039. On January 1 of each year during the term of the PPA, a portion equal to 50% of the price of electricity purchased under the PPA is indexed to the percentage increase or decrease in the CPI. The average price of electricity delivered to BC Hydro from November 29, 2009, to December 31, 2009, was $74.74 per MW-hr, including payments of $10 per MW-hr received from the ecoENERGY Initiative. The Corporation owns 100% of this project.

Fitzsimmons Creek Facility

The Fitzsimmons Creek facility is a 7.5 MW run-of-river hydroelectric facility located on Fitzsimmons Creek, between the Whistler and Blackcomb mountains in the Resort Municipality of Whistler, B.C. Its estimated yearly energy output is 33,000 MW-hr. Construction of the Fitzsimmons Creek project began in July 2008 prior to the Corporation's acquisition of a 66⅔% interest on August 29, 2008, and was completed on January 26, 2010. The Fitzsimmons Creek project has a PPA with BC Hydro, for all power produced until January 26, 2050.

The price of electricity delivered under the PPA is $84.85 per MW-hr. On January 1 of each year during the term of the PPA, a portion equal to 50% of the price of electricity purchased under the PPA is indexed to the percentage increase or decrease in the CPI during the preceding 12 months, effective January 1, 2010. The facility is also entitled to receive a payment equivalent to $3.10 per MW-hr of electricity purchased under the PPA, as compensation for BC Hydro's receiving the benefits of the environmental attributes associated with the energy generated. This payment of $3.10 per MW-hr is fully indexed to the percentage increase or decrease in the CPI during the preceding 12 months, effective January 1, 2009. Lastly, the Fitzsimmons Creek facility is eligible to receive payments of $10 per MW-hr from the ecoENERGY Initiative.

The Corporation owns 66⅔% of the voting rights in the Fitzsimmons Creek facility but receives a larger share of the economic value of the facility through a preferred return of 12.5% on the Corporation's investments in the project, up to 25% of the total project costs. As at December 31, 2009, the Corporation had invested the maximum amount of $8.3 million.

16.1% Interest in the Innergex Power Income Fund

The Innergex Power Income Fund is an open-ended income trust that indirectly owns interests in ten hydroelectric power generating facilities and two wind farms with a total net installed capacity of 210 MW (gross 340 MW). The hydroelectric facilities and the wind farms are managed by the Corporation, as manager, under long-term agreements with the Fund.

All the power generating facilities with which the Fund is involved sell their power under long-term PPAs entered into with public utilities that have credit ratings issued by Standard & Poor's ("S&P") and ranging from BBB to AAA. As of the date of this MD&A, the capacity-weighted average age of the facilities is approximately 7.2 years and the capacity-weighted average remaining life of the PPAs is 14.4 years, excluding renewal features. The Corporation owns 4,724,409 units or approximately 16.1% of all issued and outstanding units of the Fund. The Fund's current distribution policy is to remit, on a monthly basis, $1.00 per trust unit per year to its unitholders. Please refer to the "Subsequent Event" section of this MD&A for more information about the Fund's future distribution policy.

Additional information about the Fund's facilities can be found on SEDAR at www.sedar.com. Such information is not incorporated by reference.

DEVELOPMENT PROJECTS

The Corporation currently has four projects that are expected to reach the commercial operation stage in 2011 and 2012.

Kwoiek Creek Project

The Kwoiek Creek project is a run-of-river hydroelectric power generating facility with an expected nameplate capacity of 49.9 MW and an estimated yearly energy output of 215,000 MW-hr. It is located at the confluence of the Kwoiek Creek and the Fraser River, approximately 14 kilometres south of Lytton, British Columbia. Construction of the Kwoiek Creek project is expected to begin in the second half of 2010, with commercial operations beginning in 2012. The Kwoiek Creek project has a PPA with BC Hydro for all of the power that the facility will produce; the PPA will expire 40 years after the facility's commercial in-service date. The price of electricity delivered pursuant to the PPA is $81.68 per MW-hr. A portion equal to 30% of the electricity price is to be adjusted, based on the increase or decrease in the CPI during the preceding 12 months, starting on January 1, 2006 and on every January 1 thereafter during the term of the PPA. BC Hydro is entitled to terminate the PPA in the event that commercial operation of the Kwoiek Creek Project has not commenced by May 5, 2011, subject to any extensions for force majeure as provided in the PPA. Consent to an extension of delay will be requested from BC Hydro as the beginning of commercial operations is planned for 2012. The Corporation anticipates that such an extension will be granted, given that the PPA selling price is below the price in BC Hydro's recent PPAs.

The Corporation owns 50% of the voting rights in the Kwoiek Creek project but receives a larger share of the economic value of the project through a preferred return on the Corporation's investments in the project. Under the development agreement, the Corporation can invest up to $20.0 million and its partner up to $3.0 million in interest-bearing instruments for the development of the facility. These instruments bear interest at a rate of 20% during the development phase and 14% during the construction and operating phases. As at December 31, 2009, the Corporation's total investment in the project amounted to $8.0 million.

Montagne-Sèche Project

The Montagne-Sèche project is a wind power facility located in the Municipality of the Canton of Cloridorme, Québec. It has a planned installed capacity of 58.5 MW and an expected yearly energy output of 182,743 MW-hr. The Montagne-Sèche project is expected to commence commercial operations in 2011. The project has a PPA with Hydro-Québec for all of the electricity that the facility will produce; the PPA expires 20 years after the start of commercial operations. The price payable by Hydro-Québec for the electricity delivered is determined using a formula set out in the PPA. This formula is based on the price as at January 1, 2004, specifically $68.80 per MW-hr, and is adjusted annually, based on the CPI and certain factors specified in the PPA. The Corporation owns a 38% interest in this project.

Gros Morne Project – Phase I

The Gros Morne Phase I project is a wind power facility located in the Municipality of Mont-Louis and the Municipality of Sainte-Madeleine-de-la-Rivière-Madeleine, Québec. The Gros Morne Phase I project has a planned installed capacity of 100.5 MW and an expected yearly energy output of 312,535 MW-hr. It is expected that this project will commence commercial operations in 2011. The Gros Morne Phase I and Phase II projects are covered under a single PPA entered into with Hydro-Québec—expiring 21 years after the start of commercial operations of the Gros Morne Phase I project—for all of the electricity produced by the two projects. The price payable by Hydro-Québec for the electricity delivered from the Gros Morne Phase I and II projects was set at $65.58 per MW-hr as at January 1, 2004, and is adjusted annually, based on the CPI and certain factors specified in the PPA. The Corporation owns a 38% interest in this project.

Gros Morne Project – Phase II

The Gros Morne Phase II project is a wind power facility located in the Municipality of Mont-Louis and the Municipality of Sainte-Madeleine-de-la-Rivière-Madeleine, Québec. The Gros Morne Phase II project has a planned installed capacity of 111.0 MW and an expected yearly energy output of 345,188 MW-hr. It is expected that the Gros Morne Phase II project will begin commercial operations in 2012. The Gros Morne Phase I and Phase II projects are covered by the same PPA with Hydro-Québec for all the electricity produced by the projects. Please refer to the preceding paragraph for details about the PPA. The Corporation owns a 38% interest in this project.

PROSPECTIVE PROJECTS

All of the Prospective Projects, with a combined potential net installed capacity of more than 1,600 MW (gross 1,800 MW), are in the preliminary development stage. On March 11, 2010, BC Hydro announced that three of the Corporation's hydroelectric Prospective Projects, totalling 113 MW, out of the five Prospective Projects submitted under the 2008 BC Hydro Clean Power Call RFP (the "2008 BC CPC") had been selected for PPA awards. For more information about this announcement, please refer to the "Subsequent Events" section of this MD&A. Some Prospective Projects are targeted towards specific future RFPs and others will be available for future RFPs yet to be announced. There is no certainty that any Prospective Project will be realized.

Additional information about the Corporation's facilities and projects can be found in the Corporation's Annual Information Form for the year ended December 31, 2009 filed at www.sedar.com.

BUSINESS STRATEGY

The Corporation's strategy for building shareholder value is 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. As an independent clean power producer, the Corporation aims to generate value from renewable energy sources.

Strategic Relationships

The Corporation often teams up with a strategic partner when bidding for projects under an RFP. When this is the case, the Corporation and the strategic partner share the ownership of such projects. Current partners are TransCanada Energy Ltd. (owner of 62% of the Carleton wind farm and of the Montagne-Sèche and Gros-Morne wind projects), the Kanaka Bar Indian Band (owner of 50% of the Kwoiek Creek project), the Ojibways of the Pic River First Nations (owner of 51% of the Umbata Falls project) and Ledcor Power Group Ltd. (owner of 33⅓% of the Fitzsimmons Creek project and other Creek Power Inc. projects). The Corporation's capacity measured on an ownership-weighted basis corresponds to (i) 149.5 MW out of the 537.8 MW capacity of its Operating Facilities, including its 16.1% interest in the Fund, (ii) 127.6 MW out of the 319.9 MW capacity of its Development Projects and (iii) 1,799 MW out of the 1,933 MW capacity of its Prospective Projects.

Areas of Growth

The Corporation is confident that future RFP opportunities will continue to arise, especially in Québec, B.C. and Ontario, as these provinces continue to increase their targets for renewable power generation. The Corporation has historically focused its bidding activities on RFPs issued in these three provinces, where it has experienced a high level of success.

On March 11, 2010, BC Hydro announced that three of the Corporation's hydroelectric Prospective Projects, totalling 113 MW, out of the five Prospective Projects submitted under the 2008 BC CPC on November 25, 2008, had been selected for PPA awards. For more information about this announcement, please refer to the "Subsequent Events" section of this MD&A.

On November 30, 2009, the Corporation submitted several wind farm projects during the Ontario FIT Program launch period. Depending on the implementation of transmission expansion, the Corporation expects that approximately 215 MW of these applications may be positioned for eventual award of FIT Program contracts.

The Corporation is currently engaged in discussions with local communities to submit wind projects under the Québec 250 MW Community Wind RFP issued in 2009. The Corporation intends to submit projects totalling 100 MW. Proposals have to be submitted in May 2010 and the contract awards should be announced by the end of 2010.

The Corporation's management team views the U.S. as an attractive market and will continue to assess the opportunities it offers, particularly in light of the Obama administration's focus on increasing renewable energy production. The Global Wind Energy Council ("GWEC") has reported that the U.S. wind energy market installed nearly 10,000 MW in 2009, increasing the country's installed capacity by 39% and bringing the total installed capacity to 35,000 MW.

Diversification
The Corporation may also expand through the acquisition of prospective projects at varying development stages or of suitable power generating assets already in commercial operation. As a public company, the Corporation could use its equity to finance potential acquisitions. As it has done in the past, the Corporation will continue to focus on hydroelectric and wind power generation facilities, although it may seek to grow through expansion into other forms of renewable energy production, including solar and geothermal power, if profitable opportunities in those sectors arise. Future projects may be located in any region where such profitable opportunities exist, although the Corporation expects that they will mostly be located in Canada and the United States. While the Corporation intends to continue focusing on the sale of power through long-term PPAs, it may also consider entering into the merchant wholesale power market if profitable opportunities are identified.

Key Growth Factors
The Corporation's future growth will be affected by five key factors:

(i) the public's and governments' demand for renewable energy;
(ii) the Corporation's capacity to evaluate and secure the best prospective sites for the development of new projects in cooperation with local communities;
(iii) its ability to enter into attractive PPAs and obtain the required environmental and other permits;
(iv) its ability to adequately forecast total construction costs, expected revenues and expected expenses for each project; and
(v) the availability of financing.

In view of the threat posed by global warming and governments' growing recognition of and support for the need to protect the environment, the Corporation believes that the future of the renewable energy industry is promising.

Capacity for Delivering Results
As it evolves in a competitive sector, the Corporation's best asset is its management team's experience and dedication. This team has a proven track record of completing projects by the commercial operations start date provided in its PPAs, without incurring any significant cost overruns, due to its careful management of the construction process. The Corporation employs 56 persons and oversees 14 employees of the operating entities in order to carry out its duties under the Administration Agreement, the Management Agreement and the Services Agreement with the Fund. The 14 employees of the operating entities are responsible for the operation and maintenance of the Fund's operating facilities. The Corporation's employees possess the specialized knowledge and skills necessary to carry out its business. The Corporation can also rely on a network of technical, financial and legal partners, and has a proven ability to complement its internal capacity with an efficient use of external consultants, when required. In addition, the Corporation uses the services of several independent engineering firms to assist it with the feasibility analysis of its projects.

MARKET TRENDS
Renewable power producers are involved in the generation of electricity from renewable energy sources including:

(i) water;
(ii) wind;
(iii) certain waste products, such as biomass (e.g. waste wood from forest products operations) and landfill gas;
(iv) geothermal sources, such as heat or steam; and
(v) the sun.

While traditional regulated utilities continue to dominate the North American electricity generation markets, the growing importance of the role played by independent power producers in meeting future electricity needs is now acknowledged and the benefits of their power output has increasingly been recognized by government authorities and other policymakers in recent years.

The trend towards increased reliance on independent power producers for the supply of renewable power in North America is fuelled by a number of initiatives, including:

(i) the increase in government-sponsored incentives;
(ii) the availability of long-term renewable energy purchase contracts with high creditworthy counterparties, allowing independent power producers to develop new projects in a low-risk environment with the expectation of long-term stable contractual cash flows;
(iii) the implementation of non-discriminatory access to transmission systems, providing independent power producers with access to regional electricity markets; and
(iv) the efficiency of independent power producers.

Renewable Power in Canada

Significant recent growth in renewable power generation in Canada has been influenced by rising electricity and fossil fuel prices; certain competitive provincial markets; the increased cost of large-scale hydroelectric sites; public concern over nuclear power generation, air quality and greenhouse gases; improvements in renewable energy technologies; and shorter construction lead times for some renewable energy projects. Renewable electricity generation in Canada is also supported by federal and provincial incentives such as production tax credits, accelerated depreciation and Renewable Portfolio Standards (“RPS”). Several provinces are also making the necessary transmission grid investments and focusing on conservation and reduction in demand.

Canada enjoys an abundance of hydrological resources that are unique in the world. Despite the competition for appropriate sites and the challenges associated with power transmission over great distances, the low operational costs and long project lives of these facilities suggest that hydroelectric power generation will remain a major affordable supply source for many years. Transmission corridors in Canada have traditionally run directly from major generation facilities to major demand centres, meaning that strategic investments in new transmission corridors will play an important role in the development of hydroelectric projects and other isolated renewable energy generation projects.

The National Energy Board reports that wind power generation in Canada has reached the commercial development stage and is now the fastest growing source of renewable energy in the country. According to the Canadian Wind Energy Association (CanWEA), Canada’s wind energy industry enjoyed a record year in 2009 with 950 MW of new wind energy capacity being installed. CanWEA also reports that the total wind installed capacity at the end of 2009 was 3,319 MW, sufficient to meet approximately 1.1% of Canada’s total electricity demand. Installed wind power capacity in Canada has increased substantially in each of the past five years, due largely to provincial RPSs, relatively short construction timelines, favourable wind resources including vast shorelines and strong winds throughout a wide range of rural areas, and numerous RFPs for renewable energy. The customary challenges of resource availability and transmission exist in Canada and, in certain areas, access to transmission lines with available capacity is an economic or regulatory consideration. Nevertheless, CanWEA has proposed a target where Canada would produce 20% of the country’s electricity from wind by 2025 by adding approximately 55,000 MW of wind capacity.

In response to the long-term trend toward stronger environmental protection policies, many provincial governments have introduced RPSs, which are generally being applied and implemented as goals or targets rather than mandatory requirements. These RPSs typically reflect the distinct resource issues associated with electricity generation, given the provinces’ respective electricity industry structures and geographical conditions. RPSs typically set a target for an increased component of renewable energy generation in the electricity generation supply mix, in order to reduce greenhouse gas emissions over time. To meet these targets, RFPs have been developed by provincial authorities or their utilities in order to source renewable generation resources and, in some cases, offer PPAs through competitive bidding processes. The competitive bidding process seeks to ensure that the RPSs are achieved at the lowest possible cost and with the highest probability of project completion. SOPs and FIT Programs have also been implemented or are planned in some provinces, as a mechanism whereby projects can contribute to meeting renewable energy generation goals by simplifying the negotiation and financing process, and decreasing the transactional costs for obtaining a long-term PPA.

Several provinces have recently released, or are currently preparing, significant new RFPs, SOPs and FIT Programs, with the objective of procuring additional installed electricity generation capacity from renewable sources. Through provincial RPSs, several provinces have set a target percentage of electricity to be generated from renewable sources. The current provincial targets for clean or renewable energy within their supply mix include: British Columbia requiring renewable or clean energy to continue to account for at least 90% of total generation; Saskatchewan targeting 500 MW of wind power by 2015 and 50% sustainable and renewable power generation by 2025; Ontario targeting 10% additional contracted renewable power generation capacity by 2010 and, by 2025, double the amount of electricity drawn from renewable sources, bringing the total to 15,700 MW; Québec pursuing 4,000 MW of installed wind generation capacity by 2015; New Brunswick aiming for 10% renewable power generation by 2016 and 4,500 MW of wind energy produced by 2025; Nova Scotia aiming for 25% renewable power generation by 2015; Prince Edward Island requiring 500 MW of wind energy produced by 2013 and 30% renewable power generation by 2016; and Manitoba pursuing 1,000 MW of installed wind generation by 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2009

IMPACT OF THE FINANCIAL CRISIS

In view of the volatile and uncertain times faced by most developed countries in 2009, this section is intended to inform investors about five specific major drivers that have changed as a result of the crisis: (i) credit availability and cost, (ii) customer demand, (iii) currencies, (iv) commodities and (v) counterparties.

Credit Availability and Cost

While financial institutions continue to lend, they are doing so much more cautiously and imposing terms and conditions that could make credit more onerous or simply unavailable for the pursuit of the Corporation's Development or Prospective Projects. If the Corporation is unable to conclude project financing in a timely manner and on commercially acceptable terms, construction of additional Development Projects and Prospective Projects could be postponed. The Corporation's current operating activities are financed using long-term non-recourse project financings provided by strong relationship banks.

Customer Demand

The Corporation sells its electricity to creditworthy public utilities owned by provincial governments through long-term take-or-pay PPAs. These public utilities are rated A+ or better by S&P. Consequently, the financial crisis has no impact on the Corporation's customers demand for its electricity. However, the financial crisis could ultimately result in a decrease in overall electricity consumption by these public utilities' end customers. Nevertheless, the Corporation believes that renewable energy will continue to be the preferred source of new energy supply and that public utilities will continue to issue RFPs to meet their renewable energy objectives.

Currencies

Since the Corporation is currently active only in Canada, it is not materially exposed to currency fluctuations with respect to its operations. Nevertheless, currency fluctuations could have an impact on major purchases drawn up in a foreign currency. When such a situation occurs, the Corporation uses hedging instruments to eliminate this risk.

Commodities

The Corporation could be exposed to commodity price variations in relation to its future construction costs, as the pricing of many project components is influenced by commodity prices, such as those for steel and copper.

Counterparties

The financial crisis could have an impact on various economic players like clients, suppliers and financial institutions, among others. The Corporation believes that its counterparty risk is not material for the following reasons:

- The Corporation's clients are rated A+ or better by S&P and are owned by provincial governments.
- The Corporation relies on certain contractors and subcontractors to achieve construction of its facilities. Such contractors could be affected by the financial crisis, to the detriment of the Corporation. In order to protect the Corporation from such risk, contractors are requested to post performance, material and labour bonds issued by insurance companies for amounts equivalent to 50% of the value of their contracts with the Corporation.
- The Corporation has entered into long-term debt agreements and derivative financial instruments with major financial institutions that are rated BBB or better by S&P.

KEY PERFORMANCE INDICATORS

The Corporation measures its performance through key indicators that include or could include: power generated in MW-hr; Net Operating Cash Flows, defined in the “Net Operating Cash Flows” section of this MD&A; 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, as they provide management and the reader with additional information about its production and cash generation capabilities and facilitate the comparison of results over different periods.

SEASONALITY

The amount of energy generated by the Operating Facilities is generally dependent on the availability of water flows and the wind regime. Lower-than-expected water flows or wind regimes in any given year could have an impact on the Corporation’s revenues and hence on its profitability. It should be noted that the Corporation owns interests in four hydroelectric facilities drawing on four watersheds and one wind farm, 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	Location	Gross Installed Capacity (MW)	Corporation’s Ownership (%)	Net Installed Capacity (MW)	Long-Term Average Production (MW-hr) (Corporation’s Ownership)				
					Q1	Q2	Q3	Q4	Total
HYDRO									
Glen Miller	Ontario	8.0	100%	8.0	13,491	11,860	4,513	11,742	41,606
Umbata Falls	Ontario	23.0	49%	11.3	8,294	18,534	10,444	16,189	53,461
Ashlu Creek	B.C.	49.9	100%	49.9	26,898	91,970	95,135	50,997	265,000
Fitzsimmons Creek	B.C.	7.5	66⅔%	5.0	2,226	7,296	8,881	3,597	22,000
Subtotal		88.4		74.2	50,909	129,660	118,973	82,525	382,067
WIND									
Carleton	Québec	109.5	38%	41.6	38,085	28,206	24,106	39,001	129,398
Total		197.9		115.8	88,994	157,866	143,079	121,526	511,465

OVERALL PERFORMANCE

Corporation's 16.1% Interest in the Fund

The Fund's facilities generated 823,989 MW-hr in 2009, a level 1% below the estimated long-term average and less than the 862,394 MW-hr generated in 2008. Excluding the impact of a seven-day shutdown of the L'Anse-à-Valleau ("AAV") wind farm in December 2009 and a 13-day shutdown of the three Portneuf facilities in June 2009, power generation for the year 2009 would have exceeded the estimated long-term average by a small margin. Both shutdowns were the result of transmission line repairs performed by Hydro-Québec.

Operating Facilities

Since last year, the Corporation completed the construction of two hydroelectric facilities. The 49.9 MW Ashlu Creek facility began commercial operations on November 29, 2009, and the 7.5 MW Fitzsimmons Creek facility began commercial operations on January 26, 2010.

As at the date of this MD&A and including these two new operating assets, the Corporation owns interests in five power generating facilities with an aggregate net installed capacity of 115.8 MW (gross 197.9 MW). These interests are composed of the Glen Miller, Umbata Falls, Ashlu Creek and Fitzsimmons Creek hydroelectric facilities (aggregate net installed capacity of 74.2 MW, gross 88.4 MW) and the Carleton wind farm (net installed capacity of 41.6 MW, gross 109.5 MW).

Production	**For the year ended December 31, 2009**		**For the year ended December 31, 2008**	
	Production (MW-hr)	Long-term average (MW-hr)	Production (MW-hr)	Long-term average (MW-hr)
Glen Miller	49,889	41,606	45,842	41,606
Umbata Falls[1]	62,377	53,461	6,006	8,780[3]
Ashlu Creek	12,210	12,117[3]	-	-
Carleton[2]	130,179	129,398	16,270	18,829[3]
Total	254,656	236,582	68,118	69,215

1. Representing the Corporation's 49% interest in this facility
2. Representing the Corporation's 38% interest in this wind farm
3. Adjusted for the period during which the facility was in commercial operation as commissioning occurred during the year

The Corporation's Operating Facilities produced 254,656 MW-hr in 2009, more than three and a half times the 68,118 MW-hr generated in 2008. This improvement is essentially due to the contribution of the Umbata Falls hydroelectric facility and Carleton wind farm over a full year, as both facilities started commercial operations in November 2008. The start of commercial operations of the Ashlu Creek hydroelectric facility on November 29, 2009, also contributed to this increase.

When compared with the estimated long-term average, the Corporation produced 8% more energy than expected. More specifically, the Glen Miller and Umbata Falls facilities respectively generated 20% and 17% more electricity than anticipated due to better-than-expected hydrology conditions. The Carleton facility also produced slightly more energy than anticipated despite a seven-day shutdown in December 2009 due to an accumulation of ice on Hydro-Québec's transmission line, which required its intervention. Finally, the Ashlu Creek facility generated slightly more energy than anticipated due to hydrology conditions in line with expectations.

Development Projects
The Corporation owns four Development Projects. Of these, three are ready for construction and one is in the permit phase. The table below provides an overview of these Development Projects.

Development Projects

Project Name	Location	Installed Capacity (MW)	Estimated Total Construction Costs ($M)	Total Construction Costs as at December 31, 2009 ($M)	Expected Commercial In-Service Date
HYDRO					
Kwoiek Creek[1]	B.C.	49.9	152.1	10.7	2012
WIND					
Montagne-Sèche[2]	Québec	58.5	103.0	1.2[3]	2011
Gros Morne – Phase I[2]	Québec	100.5	348.5	4.8[3]	2011
Gros Morne – Phase II[2]	Québec	111.0	for both phases	for both phases	2012

1. The Corporation owns 50% of this project
2. The Corporation owns 38% of this project
3. Representing the Corporation's 38% interest in this project

Kwoiek Creek
In 2009, the Kwoiek Creek hydroelectric project took a significant step forward when it received its environmental assessment (EA) certificate from the province of B.C. The report from B.C.'s Environmental Assessment Office concluded that the project is not likely to have significant adverse effects, based on the mitigation measures and commitments included as conditions of the EA certificate, and is likely to generate substantial economic spin-offs at the local and regional level. The project has also received its screening report from the Canadian Environmental Assessment Agency and British Columbia Environmental Assessment Office. The report confirmed that the Kwoiek Creek project is not likely to have significant adverse environmental effects.

Construction of the 49.9 MW Kwoiek Creek hydroelectric project is expected to commence immediately following completion of the ongoing permit phase. Project construction is expected to begin in 2010 and to be completed in 2012.

Montagne-Sèche and Gros-Morne – Phase I and II
On June 15, 2009, the Québec government announced that it had adopted the decree authorizing the construction of the Corporation's three wind farm projects, namely the Montagne-Sèche project (58.5 MW) and both phases of the Gros-Morne project (211.5 MW). In its announcement, the Québec government indicated its support for these projects by emphasizing their significant contribution to local economic development.

The Corporation is currently in the process of securing these projects' long-term debt financing. It expects to begin construction as soon as an agreement is reached. Innergex expects the 58.5 MW Montagne-Sèche and 100.5 MW Gros Morne – Phase I projects to be completed by December 1, 2011, and the Gros Morne – Phase II project to be completed by December 1, 2012.

Prospective Projects

The Corporation owns hydroelectric and wind Prospective Projects with a net potential installed capacity of more than 1,600 MW (gross 1,800 MW).

Prospective Projects

Project Name	Location	Ownership Interest	Gross Installed Capacity (MW)	RFP
HYDRO				
Kipawa	Québec	48.0%	42.0	Future Hydro-Québec RFPs
Kaipit	B.C.	100.0%	9.9	BC Hydro SOP or future RFPs
Kokish	B.C.	100.0%	9.9	BC Hydro SOP or future RFPs
Hurley River	B.C.	66⅔%	46.0	Future BC Hydro RFPs
Upper Lillooet	B.C.	66⅔%	74.0	2008 BC CPC
Gun Creek	B.C.	66⅔%	36.0	2008 BC CPC
Boulder Creek	B.C.	66⅔%	23.0	Future BC Hydro RFPs
North Creek	B.C.	66⅔%	16.0	2008 BC CPC
Various Creek Power Inc. projects	B.C.	66⅔%	50.0	BC Hydro SOP or future RFPs
HYDRO subtotal			**306.8**	
WIND				
Roussillon	Québec	100.0%	108.0	Future Hydro-Québec RFPs
Kamouraska	Québec	100.0%	124.5	Future Hydro-Québec RFPs
Saint-Constant	Québec	100.0%	70.0	Future Hydro-Québec RFPs
Club des Hauteurs	Québec	100.0%	195.5	Future Hydro-Québec RFPs
Haute-Côte-Nord Est	Québec	100.0%	170.0	Future Hydro-Québec RFPs
Haute-Côte-Nord Ouest	Québec	100.0%	168.0	Future Hydro-Québec RFPs
Various projects	Québec	70.0%	100.0	250 MW Community Wind RFP
Various projects	Ontario	100.0%	215.0	Ontario's FIT Program
Various projects	British Columbia	100.0%	475.0	Future BC Hydro RFPs
WIND subtotal			**1,626.0**	
Total			**1,932.8**	

On March 11, 2010, BC Hydro announced that three of the Corporation's hydroelectric Prospective Projects, totalling 113 MW, out of the five Prospective Projects submitted under the 2008 BC CPC on November 25, 2008, had been selected for PPA awards. For more information about this announcement, please refer to the "Subsequent Events" section of this MD&A.

On November 30, 2009, the Corporation submitted several wind farm projects during the Ontario's FIT Program launch period. Depending on the implementation of transmission expansion, the Corporation expects that approximately 215 MW of these applications may be positioned for eventual award of FIT contracts. The FIT Program was enabled by the Green Energy and Green Economy Act, 2009, which came into effect on May 14, 2009. The OPA is responsible for implementing the program. According to authorities, the FIT Program will help Ontario phase out coal-fired electricity generation by 2014 by encouraging the development of renewable energy in the province.

The Corporation is currently engaged in discussions with local communities to submit wind projects under Québec's 250 MW Community Wind RFP issued in 2009. The Corporation intends to submit projects totalling 100 MW. Proposals have to be submitted in May 2010 and awards should be announced before the end of 2010.

Abandoned Projects

Matawin Project (100% ownership)

The Matawin project was a proposed hydroelectric power generating facility with an installed capacity of 15.0 MW to be located on the Matawin River, a tributary of the Saint-Maurice River, in Québec.

Despite the fact that this project was selected under a RFP issued jointly by Hydro-Québec and the Ministère des Ressources naturelles et de la Faune du Québec in 2002, the Corporation was unable to reach an agreement and sign a PPA with Hydro-Québec and so has decided to abandon the project in its current form.

Mkw'Alts Project (100% ownership)

The Mkw'Alts project was a proposed run-of-river hydroelectric power generating facility with a potential nameplate capacity of 47.7 MW to be located on Ure Creek, a tributary of Lillooet Lake, approximately 11 kilometres south of the town of Mount Currie, B.C.

In view of the agreement made between the Province and the Lil'wat Nation for a Land Use Planning Agreement and the consequences of such an agreement on the negotiations with the Lil'wat Nation for the use of their lands and on the conditional water licence and Licence of Occupation, the Corporation had no choice but to indefinitely postpone the Mkw'Alts project despite the fact that a PPA had been executed for this project.

Les Méchins Project (38% ownership)

The Les Méchins project was a prospective wind power project to be located in the Municipalities of Grosse-Roche, Les Méchins and Saint-Jean-de-Cherbourg, Québec, with a planned installed capacity of 150 MW.

As it proved impossible for the Corporation to come to an agreement with the private landowners in a timely manner, resulting in the termination of the turbine supply agreement with GE and the termination of the PPA with Hydro-Québec on December 1, 2009, the Corporation had no other choice but to abandon the project.

SELECTED ANNUAL INFORMATION

Selected Annual Information	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
		(Restated)[1]	(Restated)[1]
Revenues	$ 25,641,051	$ 5,866,535	$ 8,048,842
Expenses	$ 9,057,506	$ 7,242,209	$ 6,258,469
Net (loss) earnings and comprehensive (loss) income	$ (15,328,908)	$ (35,791,444)	$ 5,440,795
Per share (basic)	$ (0.65)	$ (1.52)	$ 1.61
Per share (diluted)	$ (0.65)	$ (1.52)	$ 1.61
Weighted average number of shares outstanding	23,500,000	23,500,000	3,383,477
Total assets	$ 444,635,708	$ 431,700,812	$ 343,259,507
Long-term financial liabilities:			
Debt related to operating facilities	$ 197,685,166	$ 104,582,747	$ 17,000,000
Debt related to projects under construction	$ 18,479,502	$ 75,046,564	$ 64,135,000
Debt related to projects under development	$ 150,000	$ -	$ -
Others	$ -	$ 7,368,652	$ 3,445,600
Dividends declared on common shares	$ -	$ -	$ 3.10
Shareholders' equity	$ 183,269,204	$ 197,038,802	$ 230,425,897

1. Please refer to the "Accounting Changes" section of this MD&A.

Comparison between 2009 and 2008

The Corporation's revenues increased more than fourfold in 2009 to reach $25.6 million. This improvement is due to the contribution of the Umbata Falls hydroelectric facility and Carleton wind farm during a full year, as both facilities started commercial operations in November 2008. The start of commercial operations of the Ashlu Creek hydroelectric facility on November 29, 2009, also contributed to this increase as well as the Corporation's share of the Fund's net earnings which is accounted for as revenues.

In 2009, expenses totalled $9.1 million ($7.2 million in 2008). This increase is related mainly to the operation of three power producing facilities during the full year, as opposed to only one in 2008.

The Corporation recorded a net loss of $15.3 million in 2009 (net loss of $35.8 million in 2008). This improvement is mainly due to:

- a $19.4 million improvement in EBITDA ($14.3 million in 2009, compared with a negative $5.1 million in 2008);
- the recording of an unrealized net gain on derivative financial instruments of $10.0 million in 2009 (unrealized net loss of $17.7 million in 2008);
- lower impairment of project development costs ($0.4 million in 2009, compared with $17.5 million in 2008).

The improvement was partially offset by higher impairment of goodwill ($22.5 million in 2009, compared with $3.6 million in 2008) and by a $4.7 million provision for future income taxes in 2009 ($12.5 million future income tax recovery in 2008).

Total assets and long-term debt increased in 2009 as the Corporation completed the construction of the Ashlu Creek hydroelectric project and continued development of the Fitzsimmons Creek hydroelectric project.

The Corporation did not declare a dividend in 2009 or 2008.

Comparison between 2008 and 2007

Compared with 2007, Innergex's revenues declined in 2008, due mainly to the Corporation's share of the Fund's net earnings, which is accounted for as revenues. In 2007, the Fund's net earnings contributed $1.8 million to the Corporation's revenues, whereas in 2008 the Fund's net loss negatively affected the Corporation's revenues by $1.4 million. This accounting treatment has no impact on the Corporation's cash flow. Nevertheless, the contribution of the Glen Miller operating facility throughout the year, as opposed to during 26 days in 2007, and the start of commercial operations at the Umbata Falls and Carleton facilities helped partially mitigate this impact.

In 2008, expenses increased from the preceding year due to the recording of a non-cash expense related to the granting of stock options on December 6, 2007, and due to additional expenses related to the Corporation's becoming a public company.

The Corporation recorded a net loss of $35.8 million in 2008 compared with net earnings of $5.4 million in 2007. This decrease was mainly due to the $17.5 million impairment of project development costs, the recording of $17.7 million in unrealized losses on derivative financial instruments, the $3.6 million impairment of goodwill and the $2.4 million realized loss on derivative financial instruments, partially compensated by a future income tax recovery of $12.5 million. These unrealized net losses on derivative financial instruments were the result of a general decrease in benchmark interest rates.

Total assets and long-term debt increased in 2008 as the Corporation completed the construction of the Umbata Falls hydroelectric project and the Carleton wind farm, continued developing the Ashlu Creek hydroelectric project and acquired the Fitzsimmons Creek project as part of the Creek Power Inc. acquisition.

The Corporation did not declare a dividend in 2008. Prior to its Initial Public Offering ("IPO") in December 2007, the Corporation declared a $3.10 dividend on its 1,942,000 outstanding common shares for a total of $6.0 million. The increase in the weighted average number of outstanding shares was due to the IPO, which was also the reason for the changes in net (loss) earnings and comprehensive (loss) income per share in 2008 compared with 2007.

OPERATING RESULTS

The Corporation's operating results for 2009 cover the period from January 1, 2009, to December 31, 2009, and are compared to operating results for the same period in 2008. The following table presents a breakdown of the Corporation's revenues.

Revenues	For the year ended December 31, 2009	For the year ended December 31, 2008
Operating revenues	$ 19,955,281	$ 4,902,132
Management fees	2,319,816	2,335,262
Share of net earnings (loss) of an entity subject to significant influence	3,365,954	(1,370,859)
Revenues	$ 25,641,051	$ 5,866,535

The Corporation reported revenues of $25.6 million in 2009 ($5.9 million in 2008). This improvement is due to the contribution of the Umbata Falls hydroelectric facility and Carleton wind farm over a full year, since both facilities started commercial operations in November 2008, and to the start of commercial operations of the Ashlu Creek hydroelectric facility on November 29, 2009. The Corporation's share of the Fund's net earnings, which is accounted for as revenues, also contributed to this increase. This accounting treatment has no impact on the cash flow of the Corporation.

As the manager of the Fund and owner of 16.1% of its outstanding units, the Corporation is considered, from an accounting standpoint, to have a significant influence on the Fund. The Corporation therefore accounts for its share of the Fund's net earnings or net loss as revenues, adjusting for the amortization of intangibles and future income taxes related to the excess of the cost of its investment in the Fund over the underlying net book value of assets acquired.

The Fund's net earnings contributed $3.4 million to the Corporation's revenues in 2009, an improvement of $4.7 million compared with the same period in 2008. The Fund's improvement in net earnings was influenced by a $15.8 million unrealized net gain on derivative financial instruments recorded in 2009, compared with a $21.2 million unrealized net loss on derivative financial instruments recorded in 2008. These items affected the Fund's net earnings and, as a result, the amount recorded as the Corporation's share of the Fund's net earnings.

Share of the Net Earnings (Loss) of an Entity Subject to Significant Influence	**For the year ended December 31, 2009**	**For the year ended December 31, 2008**
Corporation's 16.1% share in the Fund's net earnings (loss)	$ 4,216,534	$ (520,279)
Amortization of intangibles	(1,173,214)	(1,173,214)
Future income taxes	322,634	322,634
Share of net earnings (loss) of an entity subject to significant influence	$ 3,365,954	$ (1,370,859)

Expenses
Expenses are composed of operating expenses, stock-based compensation, general and administrative expenses and prospective project expenses.

Operating expenses consist primarily of the operators' salaries, water rights, royalties, insurance premiums, taxes, property taxes, maintenance and repairs. The Corporation recorded $1.7 million in operating expenses in 2009 ($0.6 million in 2008) related to the operation of the power producing facilities. This increase was expected as the Corporation operated three facilities during most of 2009 as opposed to only one during most of 2008.

Stock-based compensation relates to the amortization, over the applicable four-year vesting period, of the fair value of options granted concurrently with the IPO. Non-cash stock-based compensation totalled $1.6 million in 2009 (idem in 2008).

General and administrative expenses totalled $5.8 million in 2009 ($5.1 million in 2008). This increase is due mainly to the larger number of Operating Facilities, to less expense being allocated to projects under construction than in 2008 and to costs incurred for the strategic combination of the Corporation and the Fund. For more information about the Combination, please refer to the "Subsequent Events" section of this MD&A.

Prospective projects expenses include the costs incurred for the development of Prospective Projects. Prior to 2009, these expenses were capitalized; however, a change in Canadian GAAP now requires these costs to be expensed. Please refer to the "Accounting Changes" section of this MD&A for more information on this subject. In 2009, prospective projects expenses totalled $2.3 million ($3.7 million in 2008). This decrease is mostly the result of additional expenses incurred in 2008 in connection with the 2008 BC CPC. By investing in the development of its Prospective Projects and new projects, the Corporation is positioning itself for future growth.

Interest on Long-Term Debt
The Corporation incurred $4.4 million in interest expenses on its long-term debt in 2009 ($1.1 million in 2008). This increase is due to a higher level of indebtedness, for which interest is recorded as an expense, related to the Umbata Falls and Carleton facilities commissioned at the end of 2008, partly offset by the decrease in variable interest rates.

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.

For the year ended December 31, 2009, the Corporation recorded a realized loss on derivative financial instruments of $1.5 million due to the conversion of two bond forward contracts into a 25-year interest rate swap related to the Umbata Falls hydroelectric project. The realized loss on these two bond forward contracts is offset by the project benefiting from a lower-than-expected fixed interest rate over the 25-year amortization period of its long-term debt. In 2008, Innergex recorded a $2.4 million realized loss on derivative financial instruments due to the conversion of a bond forward contract into an interest rate swap related to the Carleton wind farm project. The realized loss on this bond forward contract is offset by the project's benefiting from a lower-than-expected fixed interest rate over the 18.5-year amortization period of its long-term debt.

In 2009, the Corporation recorded an unrealized net gain on derivative financial instruments totalling $10.0 million (unrealized net loss of $17.7 million in 2008). This unrealized net gain is due mainly to the increase in benchmark interest rates for long-term maturities since the end of 2008. This gain had no cash impact on the Corporation's results.

Other Expenses and Revenues
Other expenses and revenues are composed mainly of the interest expense on the bank loan and interest earned on cash and cash equivalents. In 2009, other expenses were not material (other revenues of $0.6 million in 2008). This decrease is due to higher interest expense on the bank loan (not material in 2008), a higher average cash balance in 2008 than in 2009 and to lower interest rates earned on deposits in 2009 than in 2008.

The Corporation invests its cash in liquid assets such as bankers' acceptances and term deposits with short-term maturities.

Depreciation and Amortization
The depreciation and amortization expense totalled $6.4 million in 2009 ($1.8 million in 2008). The difference is attributable mainly to the depreciation of a larger number of Operating Facilities in 2009 than in 2008.

Impairment of Project Development Costs
In 2009, Innergex wrote off $0.4 million of project development costs ($17.5 million in 2008). The total from 2008 originates from the Mkw'Alts project ($10.1 million), the Les Méchins project ($2.3 million) and various other Prospective Projects ($5.1 million). Please refer to the "Abandoned Projects" section of this MD&A for more information.

Impairment of Goodwill
The Corporation conducted an annual goodwill impairment test for the year ended December 31, 2009. As a result of this test, a $22.5 million impairment charge ($3.6 million in 2008) was required. The impairment reflects the Corporation's share trading price on the TSX.

Provision for Income Taxes
The provision for current income taxes for the years ended December 31, 2009, and December 31, 2008, was minimal due to the Corporation's young pool of property, plant and equipment, which results in a substantial available unused capital cost allowance.

The Corporation recorded a future income tax provision of $4.7 million in 2009 stemming primarily from an unrealized gain on derivative financial instruments. The impairment of goodwill had no impact as it is excluded from the calculation of the provision for income taxes. In 2008, the Corporation recorded a future income tax recovery of $12.5 million, mainly due to an unrealized loss on derivative financial instruments and to the impairment of project development costs.

Losses Allocated to Minority Interests
Minority interests are third parties' share of earnings or losses and relate mainly to Creek Power Inc. A 66⅔% interest in Creek Power Inc. was acquired on August 29, 2008. Prior to that date, the Corporation did not allocate any material earnings or losses to minority interests. In 2009, losses totalling $0.3 million were allocated to minority interests (idem in 2008). According to Canadian GAAP, no further losses are to be allocated to minority interests, as they were brought to zero by absorbing their share of accounting losses.

Net Loss and Comprehensive Loss
The Corporation posted a net loss and comprehensive loss of $15.3 million (basic and diluted net loss of $0.65 per share) in 2009. In the corresponding period in 2008, net loss and comprehensive loss totalled $35.8 million (basic and diluted net loss of $1.52 per share). This $20.5 million improvement is attributable mainly to a $19.4 million increase in EBITDA, to a $27.7 million positive variation in the fair market value of derivative financial instruments and to a $17.1 million reduction in the impairment of project development costs. These positive elements were partially offset by a $4.6 million increase in depreciation and amortization, a $3.3 million increase in interest on long-term debt, an $18.9 million increase in impairment of goodwill and a $17.2 million variation in income tax provisions.

Basic and diluted per-share figures for the years ended December 31, 2009, and December 31, 2008, are based on a weighted average number of 23,500,000 shares outstanding. Stock options and warrants were non-dilutive during the periods covered, as the average market price of the Corporation's share was below the strike price.

NET OPERATING CASH FLOWS

The Corporation believes that Net Operating Cash Flows represent important additional information for management and the reader because they provide a measure of the cash generated by the Corporation's assets by excluding certain non-cash, unusual and non-recurring items and including a significant cash element (e.g. distributions received from an entity subject to significant influence). The Corporation calculates Net Operating Cash Flows as demonstrated below:

Net Operating Cash Flows	**For the year ended December 31, 2009**	**For the year ended December 31, 2008**
		(Restated)[1]
Net (loss)	$ (15,328,908)	$ (35,791,444)
Add/(deduct):		
Losses allocated to minority interests	(252,868)	(314,270)
Future income taxes	4,664,460	(12,501,824)
Impairment of goodwill	22,458,445	3,604,865
Impairment of project development costs	421,335	17,514,227
Unrealized net (gain) loss on derivative financial instruments	(10,018,017)	17,665,163
Other items	37,579	4,119
Amortization of deferred financing fees	239,382	19,740
Depreciation and amortization	6,424,280	1,848,547
Non-cash stock-based compensation	1,563,627	1,563,627
Share of net (earnings) loss from an entity subject to significant influence	(3,365,954)	1,370,859
Distributions received from an entity subject to significant influence	4,724,409	4,708,899
Net Operating Cash Flows	$ 11,567,770	$ (307,492)

1. Please refer to the "Accounting Changes" section of this MD&A.

The Corporation generated $11.6 million in Net Operating Cash Flows in 2009 (negative $0.3 million in 2008). This significant increase stems essentially from the contribution of the Umbata Falls and Carleton facilities over a full year.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

For the year ended December 31, 2009, cash flows generated by operating activities totalled $22.9 million. In 2008, cash flows used by operating activities totalled $11.6 million. This $34.5 million improvement is due primarily to the $11.9 million improvement in Net Operating Cash Flows and to a $26.3 million improvement in the variation of non-cash working capital items. The latter stems mainly from the $20.1 million positive impact of accounts receivable and the $6.1 million positive impact of accounts payable and accrued liabilities. The cash generated by the decrease in accounts receivable is mainly the result of two payments totalling $14.7 million received with respect to the Carleton wind farm.

Cash Flows from Financing Activities

Cash flows from financing activities totalled $35.4 million in 2009, the result of net increases in the bank loan ($2.6 million) and long-term debt ($32.9 million). The $49.1 million increase in long-term debt (net of deferred financing fees) stems from the Ashlu Creek and Fitzsimmons Creek projects currently under construction and from completed projects, namely the Umbata Falls and Carleton facilities. Most of the $16.3 million decrease in long-term debt comes from the repayment of the Hydro-Québec TransÉnergie ("HQT") and GST/PST loans (defined in the "Long-Term Debt" section of this MD&A) related to the Carleton wind farm and from the scheduled repayments of the Glen Miller, Umbata Falls and Carleton long-term debts.

In 2008, cash flows from financing activities totalled $93.2 million, mostly as a result of net increases in bank loan ($7.8 million) and long-term debt ($84.4 million). These increases were mainly due to construction activities at the Umbata Falls, Carleton, Ashlu Creek and Fitzsimmons Creek projects as well as of the acquisition of a 66⅔% interest in Creek Power Inc.

Cash Flows from Investing Activities

The Corporation's cash flows from investing activities for the year ended December 31, 2009, represented total net cash outflows of $54.0 million. Of this amount, $50.3 million was used for additions to property, plant and equipment, mostly related to the Umbata Falls, Carleton, Ashlu Creek and Fitzsimmons Creek projects; $0.5 million for additions to intangible assets; $4.2 million for additions to project development costs; and $3.7 million for additions to reserve accounts. These amounts were partially offset by distributions totalling $4.7 million from the Corporation's 16.1% interest in the Fund, an entity under significant influence.

In 2008, cash flows from investing activities represented total net cash outflows of $106.7 million. The acquisition of Creek Power Inc. accounted for $8.7 million; additions to property, plant and equipment, $97.9 million; additions to intangible assets, $2.0 million; additions to project development costs, $2.7 million; and additions to reserve accounts, $0.1 million. These amounts were partially offset by distributions totalling $4.7 million from the Corporation's 16.1% interest in the Fund, an entity under significant influence.

Cash and Cash Equivalents

The Corporation generated $4.4 million in cash and cash equivalents in 2009, mainly from Net Operating Cash Flows and positive changes in non-cash operating working capital items. These factors were partly offset by additions to project development costs, investments in reserve accounts and scheduled long-term debt repayments. The construction of the Ashlu Creek and Fitzsimmons Creek projects had a minimal impact, as the costs to complete them are financed through the projects' debt facilities. The Corporation expects that future construction costs to complete the Ashlu Creek and Fitzsimmons Creek projects will also be financed through the projects' debt facilities.

As at December 31, 2009, the Corporation had cash and cash equivalents amounting to $10.3 million. As at the same date in 2008, it had reported cash and cash equivalents of $6.0 million.

USE OF ALL FINANCING PROCEEDS

In 2009, the Corporation borrowed $51.7 million after accounting for related fees of $0.9 million and used cash and cash equivalents of $19.6 million to finance the ongoing construction and development of power generating projects (total of $55.0 million), and to repay $16.3 million in long-term debt.

In 2008, the Corporation borrowed $92.9 million after accounting for related fees of $1.2 million, issued $0.2 million in warrants, recorded a $1.0 million reduction in issuance costs of shares and used $18.1 million in cash and cash equivalents to finance the Creek Power Inc. acquisition ($8.7 million) and the ongoing construction and development of power generating projects (total of $102.7 million) and to repay $0.8 million in long-term debt.

Use of all Financing Proceeds	**For the year ended December 31, 2009**	**For the year ended December 31, 2008**
		(Restated)[1]
Proceeds from debt issuance	$ 52,544,000	$ 94,061,000
Less: Issuance costs	(874,750)	(1,184,407)
Issuance of warrants	-	175,000
Issuance cost of shares:	-	959,153
Financing proceeds	$ 51,669,250	$ 94,010,746
Business acquisition:		
Creek Power Inc	$ -	$ 8,674,274
Additions to property, plant and equipment	50,285,173	97,913,350
Additions to intangible assets	501,609	2,012,282
Additions to project development costs	4,205,248	2,742,067
Variation of other long-term assets	13,033	(22,344)
Long-term debt repayment	16,261,724	772,916
Use of financing proceeds	$ 71,266,787	$ 112,092,545
(Reduction) of working capital	$ (19,597,537)	$ (18,081,799)

1. Please refer to the "Accounting Changes" section of this MD&A.

FINANCIAL POSITION

Assets

As at December 31, 2009, the Corporation had $444.6 million in total assets, compared with $431.7 million in total assets as at December 31, 2008. This variation is mostly the result of the construction of the Ashlu Creek and Fitzsimmons Creek projects ($46.5 million) and investments in reserve accounts ($3.7 million), mitigated by an impairment of goodwill ($22.5 million), by a decrease in accounts receivable ($16.3 million) related mainly to the Carleton wind farm and by depreciation and amortization ($6.4 million).

Working Capital

As at December 31, 2009, working capital was negative at $25.3 million, with a working capital ratio of 0.43:1.00. Excluding the $12.3 million bank loan facility, which is expected to be renewed on a yearly basis, and the $16.8 million negative market value of derivative financial instruments, working capital was positive at $3.8 million with an adjusted working capital ratio of 1.25:1.00. At December 31, 2008, working capital was negative at $28.1 million and the working capital ratio was 0.52:1.00. Excluding the $9.8 million bank loan facility and the $20.4 million negative market value of derivative financial instruments, working capital was positive at $2.1 million with an adjusted working capital ratio of 1.07:1.00. The variation over the last year is mostly the result of a decrease in accounts receivable, partly offset by an increase in cash and cash equivalents, a reduction in the current portion of long-term debt and by a decline in the negative value of the derivative financial instruments.

In view of (i) the expected cash flow contribution from the Corporation's Operating Facilities, including the recently commissioned 49.9 MW Ashlu Creek and the 7.5 MW Fitzsimmons Creek hydroelectric facilities, and (ii) the increase in its bank credit facility commitment from $30.0 million to $40.0 million on January 27, 2010, the Corporation considers its current level of working capital to be sufficient to meet its needs. As at December 31, 2009, $12.3 million of this bank credit facility had been drawn as cash advances, $11.7 million used for the issuance of letters of credit and $3.9 million reserved as collateral to secure a bond forward contract.

Accounts receivable decreased from $22.9 million as at December 31, 2008, to $6.6 million as at December 31, 2009, mostly due to two payments totalling $14.7 million received with respect to the Carleton wind farm.

Accounts payable and accrued liabilities decreased from $12.0 million as at December 31, 2008, to $10.5 million at the end of 2009. This line item is comprised mainly of trade payables and short-term holdbacks related to the finalization of the construction of the Fitzsimmons Creek project and completion of the Ashlu Creek facility and Carleton wind farm.

Derivative financial instruments included in current liabilities decreased from $20.4 million as at December 31, 2008, to $16.8 million as at December 31, 2009. This variation is mainly due to the conversion of two bond forward contracts into a 25-year interest rate swap related to the Umbata Falls hydroelectric project and to an increase in benchmark interest rates for long-term maturities.

The current portion of long-term debt relates to the Glen Miller, Umbata Falls, Ashlu Creek, Fitzsimmons Creek and Carleton credit facilities.

Reserve Accounts

Reserve Accounts Breakdown	December 31, 2009	December 31, 2008
Hydrology/wind reserve	$ 3,892,688	$ 310,198
Major maintenance reserve	265,226	142,830
Total	$ 4,157,914	$ 453,028

The Corporation holds two 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 significantly from quarter to quarter according to the seasonality of cash flows. The second is the major maintenance reserve established in order to pre-fund any major plant repairs that may be required to maintain the Corporation's generating capacity. Including the recent commissioning of the Ashlu Creek and Fitzsimmons Creek facilities, the amounts invested in this reserve will total approximately $0.3 million on an annual basis starting in 2010.

The availability of funds in the 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 $271.3 million in property, plant and equipment on its books as at December 31, 2009, compared with $229.5 million as at December 31, 2008. This increase stems from capital expenditures incurred in connection with the construction of the Ashlu Creek and Fitzsimmons Creek projects.

			For the year ended December 31, 2009	For the year ended December 31, 2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Hydroelectric facilities	$ 180,776,797	$ 3,247,257	$ 177,529,540	$ 51,730,976
Wind farm facility	68,277,690	2,944,186	65,333,504	67,432,791
Hydroelectric facilities under construction	27,849,136	-	27,849,136	109,850,884
Other equipment	1,819,998	1,220,219	599,779	512,653
	$ 278,723,621	$ 7,411,662	$ 271,311,959	$ 229,527,304

Intangible Assets

Intangible assets consist of various permits, licences and agreements. They also include the extended warranty for the Carleton wind farm's main fixed assets. The Corporation reported $43.8 million in intangible assets as at December 31, 2009, a decrease from the $44.4 million reported as at December 31, 2008. Intangible assets, excluding $2.1 million related to the wind farm's extended warranty, are amortized using the straight-line method over 20- to 30-year periods that commence when the related project is commissioned. The Carleton wind farm's extended warranty will be 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 or have been deemed to be eligible under a SOP or a FIT Program, 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 December 31, 2009, the Corporation had $31.1 million in project development costs ($27.9 million as at December 31, 2008).

Investment in an Entity Subject to Significant Influence

The $55.7 million investment in an entity subject to significant influence ($57.1 million as at December 31, 2008) refers to the 4,724,409 Fund units owned by the Corporation, representing a 16.1% interest in the Fund. This investment is accounted for using the equity method.

Future Income Taxes

The tax impact of temporary differences may result in material future tax assets or liabilities. As at December 31, 2009, the Corporation's net future income tax asset was $1.7 million, compared with a net future income tax asset of $6.2 million as at December 31, 2008. This variation resulted from the future income provision recorded in 2009.

Goodwill

The Corporation had $8.1 million in goodwill as at December 31, 2009 ($30.5 million as at December 31, 2008). This reduction results from the $22.5 million impairment charge recorded in 2009.

Other Long-Term Assets

The Corporation had $0.1 million in other long-term assets as at December 31, 2009 (idem as at December 31, 2008).

Long-Term Debt
As at December 31, 2009, long-term debt stood at $198.6 million, versus $165.5 million at the end of 2008. As at the end of 2009, long-term debt consisted essentially of:

i) a $15.5 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 including a bullet payment at the end of the term. The loan bears interest at the bankers' acceptance ("BA") rate plus an applicable credit margin;

ii) a $50.6 million non-recourse term loan maturing in 2014 (of this amount, $24.8 million corresponds to the Corporation's 49% ownership interest in the project) and secured by the Umbata Falls hydroelectric facility. The loan's principal payments began in the third quarter of 2009 and are based on a 25-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin;

iii) a $50.9 million non-recourse term loan maturing in 2013 and secured by the Corporation's 38% interest in the Carleton wind farm. 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 part of the Carleton project, the lenders also agreed to provide two short-term loans: (i) the $7.3 million HQT substation loan, and (ii) the $5.5 million GST/PST loan. Both loans were repaid during the first quarter of 2009. The former was reimbursed upon receipt of the substation reimbursement by HQT and the latter upon receipt of a refund from the governmental agencies of the federal goods and services tax and provincial sales tax paid as part of the purchase of the wind turbines;

iv) a $110.0 million non-recourse construction loan of which $94.0 million had been drawn as at December 31, 2009. The loan is secured by the Ashlu Creek hydroelectric facility and matures 15 years following conversion of the construction loan into a term loan. The loan's principal payments will begin on conversion and be based on a 25-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin;

v) a $24.0 million non-recourse construction loan of which $15.1 million had been drawn as at December 31, 2009. 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.

If not met, certain financial and non-financial conditions included in the credit agreements entered into with some of the Corporation's subsidiaries could limit the subsidiaries' ability 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 2009 fiscal year, the Corporation and its subsidiaries have met all financial and non-financial conditions related to their credit agreements.

Derivative Financial Instruments
Derivative financial instruments had a net negative value of $11.9 million at the end of 2009 ($22.0 million in 2008). The variation is due to the increase in benchmark interest rates for long-term maturities since the end of 2008. Derivative financial instruments are recorded at an estimated credit-adjusted mark-to-market valuation. For more information, refer to the "Derivatives Financial Instruments" section of this MD&A.

Off-Balance-Sheet Arrangements
As at December 31, 2009, the Corporation had issued letter of credits totalling $15.7 million to meet its obligations under its various PPAs and other agreements. Of this amount, $11.7 million was issued under its bank credit facility and the remainder under the projects' non-recourse credit facilities.

Shareholders' Equity
As at December 31, 2009, the Corporation's shareholders' equity totalled $183.3 million, compared with $197.0 million as at December 31, 2008. The difference is attributable mainly to the $15.3 million in net loss recorded in 2009.

As at March 22, 2010, the Corporation has a total of 23,500,000 common shares, 1,410,000 stock options and 200,000 warrants outstanding, a situation identical to that at December 31, 2009, and December 31, 2008.

Expected Contractual Obligations as at December 31, 2009

Contractual Obligations	Total	Under 1 year	1 to 3 years	4 to 5 years	Over 5 years
Long-term debt including accrual for acquisition of long-term assets	$ 216,314,668	$ 4,640,139	$ 12,417,301	$ 83,492,669	$ 115,764,559
Interest on long-term debt	85,933,814	10,728,774	20,558,627	15,579,044	39,067,369
Operating leases	3,358,973	93,274	193,603	203,404	2,868,692
Purchase (Contractual) obligations[1]	13,298,084	1,537,869	3,395,279	1,032,859	7,332,077
Other[2]	1,002,042	531,546	470,496	-	-
Total contractual obligations	$ 319,907,581	$ 17,531,602	$ 37,035,306	$ 100,307,976	$ 165,032,697

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.

RELATED PARTY TRANSACTIONS

As Manager of the Innergex Power Income Fund

The Corporation provides services to the Fund and its subsidiaries under three agreements: the Management Agreement, Administration Agreement, and Services Agreement. In 2009, the Corporation received $2.3 million for services provided under these three agreements (idem in 2008).

The Corporation accounts for amounts received under the three agreements at the amounts of the considerations received.

As an Innergex Power Income Fund Investor

The Corporation's investment in Fund units, along with related earnings (loss), is described in detail in the "Operating Results" section of this MD&A under the heading "Revenues."

SEGMENT INFORMATION

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

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 development and management of sites segment, Innergex develops hydroelectric and wind farm facilities until the commissioning stage and then manages such sites.

The accounting policies for these segments are the same as those described in the "Significant Accounting Policies" section of the 2009 Annual Report. The Corporation evaluates performance based on EBITDA, and accounts for inter-segment and management sales at cost. Any transfers of assets from the development and management of sites 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 skills requirements. There was no wind power segment prior to the commissioning of the Carleton wind farm in November 2008, because it is the Corporation's first wind power generation asset.

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Development and Management of Sites	Total
	Year ended December 31, 2009			
	$	$	$	$
Power generated (MW-hr)	124,477	130,179	-	254,656
Gross operating revenues from external clients	9,463,574	10,491,707	5,685,770	25,641,051
Expenses:				
Operating expenses	716,657	1,025,311	-	1,741,968
Stock-based compensation	-	-	1,563,627	1,563,627
General and administrative expenses	135,042	233,944	5,382,925	5,751,911
Prospective projects expenses	-	-	2,305,931	2,305,931
EBITDA	8,611,875	9,232,452	(3,566,713)	14,277,614
As at December 31, 2009				
Goodwill	5,949,001	2,104,000	-	8,053,001
Total assets	221,855,088	90,173,267	132,607,353	444,635,708
Acquisitions of capital assets	-	554,669	49,801,089	50,355,758

Over the past year, the transfers of assets to (from) the segments, upon commissioning of the Ashlu Creek facility, were as follows:

	$	$	$	$
Goodwill	5,216,001	-	(5,216,001)	-
Total assets	157,311,858	-	(157,311,858)	-

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Development and Management of Sites	Total
	Year ended December 31, 2008 (Restated)[1]			
	$	$	$	$
Power generated (MW-hr)	51,848	16,270	-	68,118
Gross operating revenues from external clients	3,594,469	1,336,989	935,077	5,866,535
Expenses:				
Operating expenses	525,094	88,880	-	613,974
Stock-based compensation	-	-	1,563,627	1,563,627
General and administrative expenses	48,303	73,056	4,943,249	5,064,608
Prospective projects expenses	-	-	3,703,378	3,703,378
EBITDA	3,021,072	1,175,053	(9,275,177)	(5,079,052)
As at December 31, 2008 (Restated)[1]				
Goodwill	733,000	2,104,000	27,674,446	30,511,446
Total assets	63,768,010	102,839,825	265,092,977	431,700,812
Acquisitions of capital assets	362,536	-	128,103,484	128,466,020

1. Please refer to the "Accounting Changes" section of this MD&A.

In 2008, the transfers of assets to (from) the segments, upon commissioning of the Umbata Falls and the Carleton facilities, were the following:

	$	$	$	$
Goodwill	733,000	2,104,000	(2,837,000)	-
Total assets	38,345,259	103,197,530	(141,542,789)	-

Hydroelectric Generation Segment
The power generation at the Glen Miller, Umbata Falls and Ashlu Creek facilities totalled 124,477 MW-hr in 2009, more than twice the 51,848 MW-hr produced in 2008. This improvement is due mainly to the output of the Umbata Falls facility over a full year and to the output of the Ashlu Creek facility, which started commercial operations on November 29, 2009. During the most recent year, electricity generation was 16% above the estimated long-term average of 107,184 MW-hr. The electricity generated in 2009 translated into revenues of $9.5 million ($3.6 million in 2008) and EBITDA of $8.6 million ($3.0 million in 2008).

The increase in total assets since December 31, 2008, is mainly attributable to the completion of the Ashlu Creek project.

The results for the hydroelectric facilities are seasonal in nature due to variations in the hydrological conditions from quarter to quarter 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 fourth quarters of any given year.

Wind Power Generation Segment
After adjusting production statistics for the Corporation's 38% interest in the Carleton wind farm, electricity production reached 130,179 MW-hr in 2009 (16,270 MW-hr in 2008), slightly above the estimated long-term average of 129,398 MW-hr, due to wind conditions in line with the estimated long-term average. This resulted in revenues and EBITDA of $10.5 million and $9.2 million respectively compared to $1.3 million and $1.2 million in 2008. These increases in power production, revenues and EBITDA are due to the Carleton wind farm's operations over a full year, as opposed to only 40 days in 2008, it having started commercial operations on November 22, 2008.

Total assets have decreased since December 31, 2008, due to depreciation and amortization and two payments totalling $14.7 million received with respect to the Carleton wind farm and affecting accounts receivable. These amounts were used to repay the HQT and the GST/PST loans related to the Carleton credit facility.

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.

Development and Management of Sites Segment
As the manager of the Fund and owner of 16.1% of its outstanding units, the Corporation is considered, from an accounting standpoint, to have significant influence on the Fund. The Corporation therefore accounts for its share of the Fund's net results as revenues, with adjustments for the amortization of intangibles and future income taxes related to the excess of the cost of its investment in the Fund over the underlying net book value of the assets acquired.

For the year ended December 31, 2009, the Corporation recorded net earnings of $3.4 million from its share of an entity subject to significant influence. During the same period, the Corporation also received a total of $2.3 million in management fees from the Fund and the Baie-des-Sables and AAV wind farm operators. In 2009, stock-based compensation ($1.6 million), general and administrative expenses ($5.4 million) and prospective project expenses ($2.3 million) resulted in a segment EBITDA of negative $3.6 million. During the corresponding period of 2008, EBITDA was negative $9.3 million. The EBITDA improvement is due to better results from the Corporation's investment in the Fund and to lower prospective projects expenses, partially offset by higher general and administrative expenses.

The acquisition of capital assets since December 31, 2008, is related mainly to the completion of the Ashlu Creek facility and to the construction of the Fitzsimmons Creek project. The decrease to total assets is due to the completion of the Ashlu Creek facility, which is now presented in the hydroelectric generation segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2009

CRITICAL ACCOUNTING ESTIMATES

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 first 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 2 to the 2009 audited consolidated financial statements.

ACCOUNTING CHANGES

New Standards Adopted in 2009

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets," replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, Research and Development Costs." Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section, issued in February 2008, is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation adopted the new standard for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation's activities include prospective projects costs that were capitalized into the costs of new projects. Under Section 3064, these costs are expensed as incurred. The application of this new standard is retroactive and requires the Corporation to expense prospective projects costs previously capitalized. The effect of this new standard on the consolidated balance sheet of the Corporation as of January 1, 2008, is as follows:

Consolidated Balance Sheet Accounts	Assets	Liabilities and Shareholders' Equity
	$	$
(Decrease)		
Project development costs	(145,312)	
Future income taxes		(39,731)
Shareholders' equity		(105,581)
	(145,312)	(145,312)

The effect of this new standard on the consolidated statements of earnings for the 2008 comparative periods is as follows:

Consolidated Statements of Earnings Accounts	Year ended December 31, 2008
	$
Prospective projects expenses increase	3,703,378
Impairment of project development costs decrease	(735,989)
Future income taxes recovery	(781,492)
Loss allocated to minority interests increase	(303,770)
Net increase of loss	1,882,127
Basic and diluted net increase of loss per share	(0.08)

The effect of this new standard on the consolidated balance sheet of the Corporation as of January 1, 2009, is as follows:

Consolidated Balance Sheet Accounts	Assets	Liabilities and Shareholders' Equity
	$	$
Increase (Decrease)		
Project development costs	(3,112,701)	
Goodwill	(705,344)	
Future income taxes assets	470,457	
Future income taxes liabilities		(154,857)
Minority interests		(1,205,023)
Shareholders' equity		(1,987,708)
	(3,347,588)	(3,347,588)

The Company adopted the changes made by CICA to Section 3862, "Financial instruments – Disclosures," whereby an entity shall classify and disclose fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

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

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

The required disclosures are included in Notes 13 and 22 to the 2009 audited consolidated financial statements.

New Standards Adopted in 2008

CICA Handbook Section 1535, "Capital Disclosures," describes the information that enables users of its financial statements to evaluate its objectives, policies and processes for managing capital. This Section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The application of this section requires additional disclosures that are presented in Note 24 to the 2009 audited consolidated financial statements.

CICA Handbook Section 3031, "Inventories," establishes practices for the measurement and disclosure of inventories. Application of these practices didn't require any adjustments of the retained earnings' opening balance but required a reclassification from the other short-term assets to the property, plant and equipment for an amount of $ 31,310. Annual charge of depreciation was increased by $1,122.

CICA Handbook, EIC-173, "Credit risk and the Fair Value of Financial Assets and Financial Liabilities," states that the credit risk of counterparties should be taken into account in determining the fair value of derivative financial instruments. The Corporation has already considered the effect of EIC-173 in measuring its derivative financial instruments.

Future Accounting Changes

CICA Handbook Section 1582, "Business Combinations," will be applicable to business combinations for which the acquisition date is on or after the Corporation's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

CICA Handbook Section 1601, "Consolidated financial statements," will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Corporation has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

CICA Handbook Section 1602, "Non-Controlling interests," will be applicable to financial statements relating to the Corporation's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Corporation has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

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.

During 2009, the accounting staff of the Corporation has followed intensive IFRS training. Additional training is expected to take place in 2010.

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

An analysis of the impact on the financial statements' most important items has begun. The item identified as having a potentially significant impact on the opening balance sheet or on the statements of earnings is property, plant and equipment. The potential impact from property, plant and equipment comes from its disclosure in its various components, and their various useful lives. A first draft of the property, plant and equipment components has been developed by management. The identification of these components and their useful lives, the impact on the opening balance sheet as at January 1, 2010, as well as on the consolidated statements of earnings continues. A first draft of the 2011 first quarter financial statements has been prepared including all related notes needed to be disclosed as per IFRS. During 2010, the Corporation will continue to evaluate the IFRS' impact.

A monitoring system of the adjustments will be established during 2010 in order to restate financial statements and ensure their compliance with the IFRS. When the restatement's effects will be known, the Corporation will communicate them through its continuous disclosure.

The process for the establishment and maintenance of internal controls over financial reporting will be adjusted according to the accounting procedures' modifications.

The Corporation has begun discussions with its lending financial institutions to ensure that adjustments related to IFRS will not impact the methods of calculating financial ratios.

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 derivative financial instruments are entered into with major financial institutions rated A+ or better by S&P, the Corporation considers the risk of illiquidity to be low.

As the Corporation's debt is set at variable interest rates, it uses bond forward contracts and interest rate swaps to protect the economic return of its projects under construction and of its operating facilities. The Corporation does not intend to settle its derivative financial instruments before maturity. The Corporation does not own or issue any financial instruments for speculation purposes.

DERIVATIVE FINANCIAL INSTRUMENTS

As at December 31, 2009, the Corporation had two interest rate swaps related to the Umbata Falls and Carleton facilities, for which its share totalled $75.7 million. It also had seven bond forwards contracts, totalling $110.0 million, related to the Ashlu Creek project (the "Ashlu Bond Forwards"). As at that date, the Corporation's share of their combined fair market value was negative at $11.9 million (negative at $22.7 million as at December 31, 2008). This decrease in the negative value of derivative financial instruments is due to unrealized net gains on derivative financial instruments in 2009 that were caused mainly by the increase in benchmark interest rates for long-term maturities, partly offset by a decrease in benchmark interest rates for short-term maturities since the end of 2008. As at December 31, 2008, the Corporation's share of the total notional amount of derivative financial instruments was $180.3 million and its share of their combined fair market value was negative at $22.7 million. These fair market values are reported on the balance sheet under "Derivative financial instruments" and their variations are accounted for in the statement of earnings under "Realized/Unrealized net (gain) loss on derivative financial instruments". The Corporation does not use hedge accounting for its derivative financial instruments.

As at the date of this MD&A, the Corporation had extended the maturity dates for the Ashlu Bond Forwards to March 29, 2010. The Corporation intends to use a portion of the proceeds from the extendible convertible unsecured subordinated debentures issued on March 8, 2010 to settle these bond forward contracts on their maturity date. Please refer to the "Subsequent Events" section of this MD&A for more information about this issue of convertible debentures and the maturity date extensions of the Ashlu Bond Forwards. Concurrently with the settlement of the Ashlu Bond Forwards, Innergex expects to enter into a new 25-year interest rate swap. The loss realized on these seven bond forward contracts will be offset by the project's benefiting from a lower-than-expected fixed interest rate over the 25-year amortization period of its long-term debt, thereby protecting the economic value of the Ashlu Creek project. Should the stakeholders reject the Combination, the Corporation would seek to further extend the maturity of the Ashlu Bond Forwards. Failure to extend them could result in a liquidity shortfall. Nevertheless, the Corporation has historically been able to extend or renew bond forward contracts or obtain outside financing to meet their capital requirements.

The exercise of the early termination option imbedded in the interest rate swap related to the Carleton facility by the counterparty could also result in a liquidity shortfall. However, this swap's early termination option is only exercisable on one specific occasion, namely the 2013 maturity of the underlying debt. At that time, should the early termination option be exercised, a presumed realized loss would be offset by the savings realized on future interest expenses, since a negative swap value would be the result of an environment in which interest rates were lower than the rate embedded in the swap.

In 2005, Innergex II Income Fund (now a subsidiary of the Corporation) sold the Rutherford Creek hydroelectric project to the Fund. Rutherford Creek Power, Limited Partnership, which owns the asset, has agreed, following the expiry or termination of the Rutherford Creek PPA in September 2024, to pay royalties to Innergex II Income Fund conditional upon achieving certain revenue thresholds. As at December 31, 2009, the fair value of this financial instrument was $0.9 million ($0.8 million as at December 31, 2008). This amount is recorded in the balance sheet under "Derivative financial instruments," and changes in this account are shown on the statement of earnings under "Unrealized net loss (gain) on derivative financial instruments."

In accordance with Canadian GAAP, the Corporation has recorded derivative financial instruments ("Derivatives") using an estimated credit-adjusted mark-to-market valuation which 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 accounted for as assets by Innergex (i.e. those 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. those Derivatives for which Innergex owes the counterparties), Innergex' 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.

RISKS AND UNCERTAINTIES

The Corporation is exposed to various business risks and uncertainties and has outlined below those it considers material. 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 risks and uncertainties are discussed in the "Risk Factors" section of the Corporation's Annual Information Form for the year ended December 31, 2009.

Execution of Strategy

The Corporation's strategy for building shareholder value is to acquire or develop high-quality power generation facilities that generate sustainable and increasing cash flows, with the objective of achieving appropriate returns on invested capital. However, there is no certainty that the Corporation will be able to acquire or develop high-quality power generation facilities at attractive prices to supplement its growth. The successful execution of a value investment strategy requires careful timing and business judgment as well as the resources to complete the development of power generating assets. The Corporation may underestimate the costs necessary to bring power generating facilities into commercial operation or may be unable to quickly and efficiently integrate new acquisitions into its existing operations.

Capital Resources

Future development and construction of new facilities, the development of the Development Projects and Prospective Projects, and other capital expenditures will be financed out of cash generated from the Corporation's operating facilities, investment in the Fund, borrowings and/or issuance of additional equity. To the extent that external sources of capital, including issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make necessary capital investments in order to construct new facilities and maintain existing ones and thus to remain in business will be impaired. There is no certainty that sufficient capital will be available on acceptable terms to fund further development or expansion.

The Corporation's capital-raising efforts could involve the issuance and sale of additional common shares or debt securities convertible into its common shares, which, depending on the price at which such shares are issued or converted, could have a material dilutive effect on holders of the Corporation's common shares and adversely impact the trading price of the Corporation's common shares.

Derivative Financial Instruments

Derivative financial instruments are entered into with major financial institutions and their effectiveness is dependent on these institutions' performance. Failure by one of them to perform its obligations could involve a liquidity risk. Liquidity risks related to derivative financial instruments also include the settlement of bond forward contracts on their maturity dates and the early termination option included in some interest rate swap contracts. The Corporation uses derivative financial instruments to manage its exposure to the risk of an increase in interest rates on its debt financing. The Corporation does not own or issue financial instruments for speculation purposes.

Current Economic and Financial Crisis

As at the publication date of this MD&A, challenges related to the obtaining of debt and equity financing existed as a result of the worldwide economic and financial crisis. Accordingly, the Corporation cannot ensure that additional financing required to develop and build the Development and Prospective Projects will materialize on a timely basis, be obtained on commercially acceptable terms or be available at all. If the Development Projects are not brought into commercial operation within the time frame stipulated in their respective PPAs, the Corporation may be subject to penalty payments or the counterparty may be entitled to terminate the related PPA.

Hydrology and Wind Regime

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 flows or wind regimes in any given year could have an impact on the Corporation's revenues and hence its profitability. It should be noted that the Corporation owns four hydroelectric facilities drawing on four watersheds and one wind farm, which offers significant diversification in terms of operating revenue sources.

Investment in the Fund
The Corporation holds a substantial equity interest in the Fund. As a result, investors in the Corporation are subject to the risks that the Corporation faces as a significant unitholder of the Fund. The risks of being an investor in the Fund are described in the continuous disclosure documents of the Fund, which can be found at www.sedar.com. Such information is not incorporated by reference. Until additional Development Projects reach the commercial operation stage, the Corporation's ability to pay interest and other operating expenses and to meet its obligations will in part depend upon receipt of sufficient funds from its investment in the Fund. The likelihood that the Corporation will receive distributable cash from the Fund will be dependent upon the financial position and creditworthiness of the Fund. There is no guarantee that the Fund will continue to make cash distributions on a basis consistent with past practices.

On February 1, 2010, the Fund and Innergex announced that they had entered into a definitive agreement to undertake a strategic combination of the two entities whereby the Fund acquires Innergex by way of a reverse takeover, thereby effecting at the same time the Fund's conversion to a corporation. Please refer to the "Subsequent Events" section of this MD&A for more information.

Construction and Design
Delays and cost overruns may occur in completing the construction of the Development Projects, Prospective Projects and future projects that the Corporation undertakes. A number of factors that could cause such delays or cost overruns include, but are not limited to, permitting delays, changing engineering and design requirements, contractors' performance, labour disruptions, adverse weather conditions and financing availability. Even when complete, a facility may not operate as planned due to design or manufacturing flaws, not all of which may be covered by warranty. Mechanical breakdown could occur in equipment after the warranty period has expired, resulting in loss of production as well as the cost of repair, although the Corporation has put in place insurance coverage and reserve accounts to protect itself from production losses resulting from mechanical breakdown and costs of repair.

Development of New Facilities
The Corporation is involved in the construction and development of new power generating facilities. These facilities have greater uncertainty surrounding future profitability than existing operating facilities with established track records. In some cases, many factors affecting costs have yet to be determined, such as land royalty payments, water royalties and municipal taxes. Also, the Corporation is in some cases required to advance funds and post performance bonds in the course of developing its new facilities. In the event that some of these power generating facilities are not completed or do not operate to specification or that unforeseen costs or taxes are incurred, the Corporation could be adversely affected.

Project Performance
The ability of the Corporation's facilities to generate the maximum amount of power that can be sold to Hydro-Québec, BC Hydro and the OPA or other electricity purchasers under PPAs is an important determinant of the Corporation's revenues. If one of the Corporation's facilities delivers less than the required quantity of electricity in a given contract year, penalty payments may be payable to the relevant purchaser by the Corporation. The payment of any such penalties by the Corporation could adversely affect the revenues and profitability of the Corporation.

Equipment Failure
The Corporation's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defects and design or operator error, among other things. To the extent that a facility's equipment requires longer-than-forecast downtimes for maintenance and repair or suffers disruptions of power generation for other reasons, the Corporation's business, operating results, financial condition or prospects could be adversely affected.

Interest Rate and Refinancing Risk
Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. The Corporation faces interest rate and debt refinancing risk in respect of floating-rate bank credit facilities used for construction financing. The Corporation's ability to refinance debt on favourable terms is dependent on debt capital market conditions, which are inherently variable and difficult to predict.

Financial Leverage and Restrictive Covenants

The Corporation's operations are subject to contractual restrictions contained in the instruments governing any of its current and future indebtedness. The degree to which the Corporation is leveraged could have important consequences for shareholders including: (i) the Corporation's ability to obtain additional financing for working capital, capital expenditures, acquisitions or other project developments in the future may be limited; (ii) a significant portion of the Corporation's cash flow from operations may be dedicated to the payment of the principal and interest on its indebtedness, thereby reducing funds available for future operations; (iii) some of the Corporation's borrowings will be at variable rates of interest, which exposes the Corporation to the risk of higher interest rates; and (iv) the Corporation may be more vulnerable to economic downturns and limited in its ability to withstand competitive pressures. The Corporation is subject to operating and financial restrictions through covenants in certain loan and security agreements. These restrictions prohibit or limit the ability of the Corporation and its subsidiaries to, among other things, incur additional debt; provide guarantees for indebtedness; create liens; dispose of assets; liquidate, dissolve, amalgamate, consolidate or effect any corporate or capital reorganization; make distributions; issue any equity interests; and create subsidiaries. These restrictions may also limit the Corporation's ability to obtain additional financing, withstand downturns in business and take advantage of business opportunities. Moreover, the Corporation may be required to seek additional debt financing on terms that include increased interest rates or more restrictive covenants, require repayment on an accelerated schedule or impose other obligations that limit the Corporation's ability to grow the business, acquire needed assets and take other actions that the Corporation might otherwise consider appropriate or desirable.

Separation Agreement

The Corporation is an undivided owner of a 38% interest in four wind projects. Furthermore, the Corporation indirectly owns, through its 16.1% investment in units of the Fund, a portion of the Fund's 38% interest in two wind farms. A third party is the other undivided owner of the remaining 62% interest in all of the six wind projects. The Corporation and the same third party have entered into a separation agreement which describes the process that will apply should one of the Corporation or the third party request separation of the wind projects held in undivided joint ownership. Once two of the projects have reached final completion, the separation agreement allows one of the undivided owners, between the 31st and 60th day following the date of final completion of the second project (i.e. the AAV wind farm), to request the separation of all of the wind projects so held in undivided joint ownership. The date of final completion of the AAV wind farm has yet to be established. Should a request for separation be presented, the Fund will be allocated the wind farm that it holds in undivided joint ownership having the lowest fair market value, and the other will be allocated to the third party. The four remaining projects will be allocated between the Corporation and the third party, based on the total number of MW of these projects and their anticipated final completion dates. The Corporation and the third party would each then own 100% of some of the four projects, which would be close to their current respective overall interest in the four projects. In each case, the parties would then each have to pay an amount to compensate for the difference in value.

Relationship with Hydro-Québec

The Carleton wind farm PPA and the Montagne-Sèche and Gros-Morne wind projects PPAs provide for certain penalties that could become payable in the event of a default thereunder and subject to certain amounts provided therein. Should such penalties become payable to Hydro-Québec, 38% of such penalties would be borne by the Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2009

ADDITIONAL INFORMATION AND UPDATES
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, or on the SEDAR website at www.sedar.com.

QUARTERLY FINANCIAL INFORMATION
For the three-month periods ended (unaudited):

(In thousands, unless otherwise stated)	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	Mar. 31, 2009
Power generated (MW-hr)	81,996	49,156	63,421	60,083
Revenues	$ 8,013	$ 4,645	$ 7,467	$ 5,516
Net (loss) earnings	$ (19,106)	$ (2,727)	$ 8,421	$ (1,918)
Net (loss) earnings per share				
Basic ($ per share)	(0.81)	(0.12)	0.36	(0.08)
Diluted ($ per share)	(0.81)	(0.12)	0.36	(0.08)
Weighted average number of shares outstanding				
Basic	23,500	23,500	23,500	23,500
Diluted	23,500	23,500	23,500	23,500

(In thousands, unless otherwise stated)	Dec. 31, 2008[1]	Sept. 30, 2008[1]	June 30, 2008[1]	Mar. 31, 2008[1]
Power generated (MW-hr)	35,312	9,369	12,790	10,647
Revenues	$ 811	$ 1,660	$ 2,424	$ 971
Net (loss) earnings	$ (30,055)	$ (1,225)	$ 1,309	$ (5,819)
Net (loss) earnings per share				
Basic ($ per share)	(1.28)	(0.05)	0.06	(0.25)
Diluted ($ per share)	(1.28)	(0.05)	0.06	(0.25)
Weighted average number of shares outstanding				
Basic	23,500	23,500	23,500	23,500
Diluted	23,500	23,500	23,500	23,544

1. Restated. Please refer to the "Accounting Changes" section of this MD&A.

The variations over the last eight quarters are due mainly to the:

- Start-up of commercial operations at the Umbata Falls and Carleton facilities in November 2008;
- seasonal nature of power generated by the Corporation's facilities;
- fluctuations in the net earnings (loss) of the Fund, which have a direct impact on the Corporation's share of net earnings (loss) of an entity subject to significant influence;
- variations of the fair market value of derivative financial instruments, which were most significant in Q4 2009 (gain of $4.7 million), Q2 2009 (gain of $9.5 million), Q4 2008 (loss of $17.3 million) and Q1 2008 (loss of $6.1 million);
- impairment of project development costs in Q4 2008 ($16.1 million);
- impairment of goodwill in Q4 2009 ($22.5 million) and Q4 2008 ($3.6 million); and
- start-up of commercial operations at the Ashlu Creek facility on November 29, 2009.

FOURTH-QUARTER RESULTS

Operating Facilities

During the fourth quarter of 2009, the Corporation's Operating Facilities produced 81,996 MW-hr (35,312 MW-hr in 2008). This increase is essentially due to the contribution of the Umbata Falls hydroelectric facility and Carleton wind farm over a full quarter since both facilities started commercial operations in November 2008. The start of commercial operations of the Ashlu Creek hydroelectric facility on November 29, 2009, also contributed to this increase.

When compared with the estimated long-term average, the Corporation produced 4% more energy than expected. More specifically, the Glen Miller and Umbata Falls facilities respectively generated 23% and 29% more electricity than anticipated due to better-than-expected hydrology conditions. On the other hand, the Carleton facility produced less energy than anticipated mainly due to a seven-day shutdown in December 2009 caused by an accumulation of ice on Hydro-Québec's transmission line which required its intervention. Finally, the Ashlu Creek facility generated slightly more energy than anticipated due to hydrology conditions in line with expectations.

Corporation's 16.1% Interest in the Fund

The Fund's ten hydroelectric facilities and two wind farms produced 189,011 MW-hr during the fourth quarter of 2009, a level 6% below the long-term average due to below-average wind conditions and to a seven-day shutdown of the AAV wind farm in December 2009. This shutdown was also caused by an accumulation of ice on Hydro-Québec's transmission line, which required its intervention. In the corresponding period in 2008, electricity production reached 220,299 MW-hr, a level 9% above the long-term average due to favourable hydrology and wind conditions.

Revenues

Revenues from operating activities totalled $6.4 million in the fourth quarter of 2009 ($2.7 million in 2008). This increase is the direct result of the 81,996 MW-hr generated during the most recent quarter of 2009 (35,312 MW-hr in 2008). In the fourth quarter of 2009, the Corporation also received $0.7 million in management fees from the Fund ($0.6 million in 2008).

The Fund's net earnings contributed $0.9 million to the Corporation's revenues during the last quarter of 2009, a $3.3 million increase over the same period in 2008. The Fund's improvement in net earnings was influenced by a $4.8 million unrealized net gain on derivative financial instruments recorded in 2009, compared with a $19.5 million unrealized net loss on derivative financial instruments recorded in 2008. These items affected the Fund's net earnings and, as a result, the amount recorded as the Corporation's share of the Fund's net earnings.

Expenses

In the fourth quarter of 2009, the Corporation recorded $0.6 million in operating expenses ($0.2 million in 2008) related to the operation of the power producing facilities. This increase was expected and is essentially due to the operation of the Umbata Falls hydroelectric facility and Carleton wind farm over a full quarter, as both facilities started commercial operations in November 2008. The start of commercial operations of the Ashlu Creek hydroelectric facility on November 29, 2009, also contributed to this increase.

Non-cash stock-based compensation of $0.4 million was recorded in the fourth quarter of 2009 (idem in 2008). The Corporation also recorded general and administrative expenses of $1.6 million during the period ($1.2 million in 2008). This increase is due mainly to the larger number of Operating Facilities, to less expense being allocated to projects under construction than in 2008 and to costs incurred for the Combination. For more information about the Combination, please refer to the "Subsequent Events" section of this MD&A.

Prospective projects expenses totalled $0.8 million during the fourth quarter of 2009 ($1.9 million in 2008). This decrease is mostly the result of additional expenses incurred in 2008 in connection with the 2008 BC CPC. By investing in the development of its Prospective Projects and new projects, the Corporation is positioning itself for future growth.

The Corporation incurred $1.2 million in interest expenses on its long-term debt during the most recent quarter of 2009 ($0.5 million in 2008). This increase is due to a higher level of indebtedness, for which interest is recorded as an expense, stemming from the Umbata Falls and Carleton operating facilities commissioned at the end of 2008, partly offset by the decrease in variable interest rates.

For the quarter ended December 31, 2008, the Corporation recorded a realized loss on derivative financial instruments of $2.4 million (nil in 2009) due to the conversion of a bond forward contract into an interest rate swap related to the Carleton wind farm project. The realized loss on this bond forward contract is offset by the project's benefiting from a lower-than-expected fixed interest rate over the 18.5-year amortization period of its long-term debt.

During the fourth quarter of 2009, the Corporation recorded an unrealized net gain on derivative financial instruments of $4.7 million (unrealized net loss of $14.9 million in 2008). This unrealized net gain is due mainly to the increase in benchmark interest rates for long-term maturities since the end of the third quarter of 2009. This gain had no cash impact on the Corporation's results.

For the quarter ended December 31, 2009, other revenues were not material ($0.1 million in 2008). This decrease is due to a higher average cash balance in 2008 than in 2009 and to lower interest rates earned on deposits in 2009 than in 2008.

The depreciation and amortization expense totalled $1.8 million in the fourth quarter of 2009 ($0.9 million in 2008). The difference is attributable mostly to the depreciation of a larger number of Operating Facilities in 2009 than in 2008.

During the fourth quarter of 2009, Innergex wrote-off $0.4 million in project development costs ($16.1 million in 2008). The total from 2008 originates from the Mkw'Alts project ($10.1 million), the Les Méchins project ($2.3 million) and various other Prospective Projects ($3.7 million). Please refer to the "Abandoned Projects" section of this MD&A for more information.

The Corporation conducted an annual goodwill impairment test for the year ended December 31, 2009. Based on the result of this test, an impairment charge of $22.5 million ($3.6 million in 2008) was required for the site development and management segment. The impairment reflects the Corporation's shares trading price on the TSX.

The provision for current income taxes for the quarters ended December 31, 2009, and December 31, 2008, was minimal due to the Corporation's young pool of property, plant and equipment, which results in a substantial available unused capital cost allowance.

The Corporation recorded a future income tax provision of $2.5 million in the fourth quarter of 2009 stemming primarily from the impairment of goodwill, which is excluded from the calculation of the provision for income taxes, and from an unrealized gain on derivative financial instruments. In 2008, the Corporation recorded a future income tax recovery of $10.8 million, mainly due to an unrealized loss on derivative financial instruments and to the impairment of project development costs.

During the fourth quarter of 2009, no losses were allocated to minority interests ($0.3 million in 2008). According to Canadian GAAP, no further losses are to be allocated to minority interests, as they were brought to zero earlier in 2009 by absorbing their share of accounting losses.

Net Loss and Comprehensive Loss

The Corporation posted a net loss and comprehensive loss of $19.1 million (basic and diluted net loss of $0.81 per share) during the fourth quarter of 2009. For the corresponding period in 2008, the net loss and comprehensive loss totalled $30.1 million (basic and diluted net loss of $1.28 per share). This $10.9 million improvement is attributable mainly to a $7.5 million increase in EBITDA, to a $19.6 million positive variation in the fair market value of derivative financial instruments and to a $15.7 million reduction in impairment of project development costs. These positive elements were partially offset by a $18.9 million increase in impairment of goodwill and by a $13.3 million variation in income tax provisions.

Basic and diluted per-share figures for the quarters ended December 31, 2009, and December 31, 2008, are based on a weighted average number of 23,500,000 shares outstanding. Stock options and warrants were non-dilutive during the periods covered, as the average market price of the Corporation's share was below the strike price.

As at March 22, 2010, December 31, 2009, and December 31, 2008, the Corporation had 23,500,000 shares outstanding.

SUBSEQUENT EVENTS

Ashlu Creek Facility

On January 14, 2010, one $25.0 million bond forward contract was renewed until February 16, 2010. On that date, it was further renewed until March 16, 2010, and then again until March 29, 2010. The Corporation intends to use a portion of the proceeds from the extendible convertible unsecured subordinated debentures issued on March 8, 2010, to settle this bond forward contract on March 29, 2010.

On January 25, 2010, six bond forwards contracts totalling $85.0 million were renewed until February 25, 2010, and on that date were further renewed until March 29, 2010. The Corporation intends to use a portion of the proceeds from the extendible convertible unsecured subordinated debentures issued on March 8, 2010, to settle these bond forward contracts on March 29, 2010.

Fitzsimmons Creek Facility

On January 26, 2010, the 7.5 MW Fitzsimmons Creek hydroelectric facility began commercial operations. However, as part of its agreement with the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games, the facility was shut down for the month of February 2010. Energy production restarted on March 1, 2010.

Bank Loan

On January 27, 2010, the Corporation extended the term of its 364-day revolving credit facility to December 30, 2010, which provides for a maximum amount available of $40.0 million, up from $30.0 million previously.

Strategic Combination of the Fund and Innergex

On February 1, 2010, the Fund and Innergex announced that they had entered into a definitive agreement (the "Arrangement Agreement") to undertake a strategic combination of the two entities whereby the Fund acquires Innergex by way of a reverse takeover, thereby effecting at the same time the Fund's conversion to a corporation. The Combination will create a pure play corporation (the "Combined Innergex") that will be one of the largest independent renewable power producers in Canada.

The Combination has been initiated by the Fund as an acquisition of Innergex whereby the Fund agrees to pay a consideration representing an exchange ratio of approximately 0.685 Fund unit per Innergex share. The Combination will be structured as a reverse takeover in order to effect the conversion of the Fund to a corporation. The unitholders of the Fund will exchange their units for shares of Innergex on the basis of an exchange ratio of 1.460 shares for each unit. Upon completion of the Combination, the current unitholders of the Fund (other than Innergex) will hold a 61% interest in Combined Innergex while the current shareholders of Innergex will hold the remaining 39% interest. The initial board of directors will be composed of Michel Letellier, President and CEO of Innergex, and of eight independent directors of which five will be current trustees of Innergex Power Trust ("IPT"), a wholly-owned subsidiary of the Fund, and three will be current directors of Innergex. Jean La Couture, current Chairman of the Board of Trustees, will be appointed Chairman of the Board of Combined Innergex. Completion of the Combination is subject to receipt of requisite Fund unitholder and Innergex shareholder approvals as well as other customary conditions, as described in further detail in a joint information circular published on February 17, 2010, that was mailed to unitholders of the Fund and shareholders of Innergex in connection with the special meetings to be held on March 24, 2010. Completion of the Combination is expected to close by the end of March 2010.

Following completion of the Combination, it is intended that Combined Innergex adopt a dividend policy of $0.58 per share per annum (equivalent to $0.85 per Fund unit, based on an exchange ratio of 1.460 shares per Fund unit).

Based on the favourable report and unanimous recommendation of a Special Committee of independent trustees, the Board of Trustees of IPT (with the three nominees of Innergex on the IPT Board abstaining), on behalf of the Fund trustee, has unanimously approved the execution and performance of the Arrangement Agreement. The Board of Trustees of IPT has unanimously determined that the Combination is fair to the unitholders of the Fund (other than Innergex) and is in the best interest of the Fund and such unitholders, and unanimously recommends that the unitholders of the Fund (other than Innergex) vote their units in favour of the Combination.

Similarly, the Board of Directors of Innergex (with Gilles Lefrançois and Michel Letellier, who also act as Trustees of IPT, abstaining) has unanimously approved the execution and performance of the Arrangement Agreement, based on the favourable report and unanimous recommendation of a Special Committee of independent directors. The Board of Directors of Innergex has unanimously determined that the Combination is fair to the shareholders of Innergex and is in the best interest of Innergex and unanimously recommends that the shareholders of Innergex vote their shares in favour of the Combination.

Copies of National Bank Financial Inc.'s fairness opinion and formal valuation report to the Special Committee of IPT and TD Securities Inc.'s fairness opinion to the Special Committee of Innergex, a description of the various factors considered by the Board of Trustees of IPT and the Board of Directors of Innergex in their respective decisions to approve the Combination as well as other relevant background information have been included in the joint information circular. Copies of the joint information circular, the Arrangement Agreement, the support and voting agreements and certain related documents have been filed with Canadian securities regulators and are available on SEDAR (www.sedar.com) as part of the public filings of the Fund and Innergex. They are also available on the Innergex website (www.innergex.com) in the "Investors" section.

Ashlu Creek Tunnel Inspection

After the first three months of operation of the Ashlu Creek facility, the Corporation decided to inspect the tunnel before the high energy production period that comes with the spring season. Consequently, the facility was shut down on February 28, 2010. The inspection revealed deficiencies with the trap designed to prevent rocks from reaching the turbines. Corrective measures are currently being implemented. The Corporation expects energy production to resume at the beginning of April 2010.

Issuance of Convertible Unsecured Subordinated Debentures

On March 8, 2010, Innergex announced that it had completed an offering of extendible convertible unsecured subordinated debentures in the aggregate principal amount of $70.0 million (the "Debentures"). The Debentures have an initial maturity date of April 30, 2010, which will automatically be extended to April 30, 2017, upon the closing of the Combination. The Debentures bear interest at a rate of 5.75% per annum, payable semi-annually, and are convertible at the option of the holder into common shares ("Common Shares") of Innergex at a conversion rate of 93.8967 Common Shares per $1,000 principal amount of Debentures, which is equal to a conversion price of $10.65 per Common Share.

On March 16, 2010, Innergex announced that it has closed the overallotment option granted to the underwriters on March 8, 2010, to purchase an additional $10.5 million principal amount of the Debentures. Combined with the March 8, 2010, offering of $70.0 million principal amount of Debentures, the overallotment option brings the aggregate gross proceeds of the offering to $80.5 million.

The net proceeds of the offering and overallotment option are expected to enhance the financial strength and flexibility of Combined Innergex and to reduce existing indebtedness.

2008 BC CPC

On March 11, 2010, BC Hydro announced that three of the Corporation's hydroelectric Prospective Projects, totalling 113 MW, out of the five Prospective Projects submitted under the 2008 BC CPC had been selected for PPA awards. The three selected Prospective Projects are Upper Lillooet River, Boulder Creek and North Creek. Subject to the British Columbia Utilities Commission's approval, the PPAs will allow the Corporation to enter into the development phase, which involves consultation with stakeholders as well as obtaining the relevant permits. The Corporation expects North Creek to start commercial operation in 2015 and Boulder Creek and Upper Lillooet River to start commercial operation in 2016. The Corporation owns a 66⅔% ownership interest in these three Prospective Projects.