INNERGEX

Renewable Energy.
Sustainable Development.

QUARTERLY REPORT 2011

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

These financial statements have neither been audited nor reviewed by the Corporation's external auditors.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

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

	Notes	Three-month period ended Sept. 30, 2011 $	Three-month period ended Sept. 30, 2010 $	Nine-month period ended Sept. 30, 2011 $	Nine-month period ended Sept. 30, 2010 $
Revenues			(Note 1.2.1)		(Note 1.2.1)
Operating		50,465	25,201	115,126	64,554
Expenses					
Operating		6,769	3,754	16,238	9,834
Share-based compensation		84	186	340	279
General and administrative		2,942	1,097	7,527	4,006
		9,795	5,037	24,105	14,119
Earnings from operations		40,670	20,164	91,021	50,435
Prospective projects expenses		572	440	1,581	1,202
Earnings before interests, income taxes, depreciation and amortization and other items		40,098	19,724	89,440	49,233
Finance costs	15	13,629	6,587	37,820	16,721
Transaction costs		47	-	1,610	5,330
Realized gain on derivative financial instruments		-	-	-	(555)
Realized loss (gain) on foreign exchange		110	(49)	70	(26)
Loss on contingent considerations		2,711	-	2,711	-
Other net revenues		(338)	(11)	(777)	(10)
Earnings before income taxes, depreciation and amortization and other items		23,939	13,197	48,006	27,773
Depreciation		8,399	5,426	22,180	13,937
Amortization		5,382	3,688	14,517	9,822
Unrealized net loss on derivative financial instruments		40,510	20,098	41,883	36,240
Unrealized loss on unitholders' capital		-	-	-	51,761
Expense related to royalty agreement upon share exchange arrangement	6	-	-	-	983
Unrealized net loss (gain) on foreign exchange		74	(12)	27	(8)
Loss before income taxes and distributions		(30,426)	(16,003)	(30,601)	(84,962)
(Recovery) provision for income taxes					
Current		70	(264)	(921)	(1,286)
Deferred		(8,898)	(4,243)	(6,978)	(7,466)
		(8,828)	(4,507)	(7,899)	(8,752)
Net loss before distributions declared to unitholders		(21,598)	(11,496)	(22,702)	(76,210)
Distributions declared to unitholders		-	-	-	7,238
Net loss		(21,598)	(11,496)	(22,702)	(83,448)
Net (loss) earnings attributable to:					
Owners of the parent		(26,162)	(11,590)	(26,665)	(83,487)
Non-controlling interests		4,564	94	3,963	39
		(21,598)	(11,496)	(22,702)	(83,448)
Weighted average number of common shares outstanding (in 000)	10	81,282	59,533	73,793	54,181
Basic net loss per share	10	(0.34)	(0.19)	(0.41)	(1.41)
Diluted weighted average number of common shares outstanding (in 000)	10	81,343	59,544	73,863	54,181
Diluted net loss per share	10	(0.34)	(0.19)	(0.41)	(1.41)

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
		(Note 1.2.1)		(Note 1.2.1)
Net loss	(21,598)	(11,496)	(22,702)	(83,448)
Other comprehensive income (loss)				
Unrealized foreign exchange gain (loss) on translation of a self-sustaining foreign subsidiary (nil income tax)	336	(146)	233	(88)
Unrealized foreign exchange (loss) gain on the designated portion of the US$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary (nil income tax)	(343)	161	(239)	99
	(7)	15	(6)	11
Comprehensive loss	(21,605)	(11,481)	(22,708)	(83,437)
Total comprehensive loss attributable to:				
Owners of the parent	(26,169)	(11,575)	(26,671)	(83,476)
Non-controlling interests	4,564	94	3,963	39
	(21,605)	(11,481)	(22,708)	(83,437)

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	Notes	September 30, 2011 $	December 31, 2010 $
Assets			
Current assets			
Cash and cash equivalents		47,279	42,116
Restricted cash and short-term investments		49,334	-
Accounts receivable		34,523	14,685
Reserve accounts		-	494
Income tax receivable		1,611	2,200
Derivative financial instruments		2,579	1,679
Prepaid and others		5,867	4,648
		141,193	65,822
Reserve accounts		43,382	20,947
Property, plant and equipment	7	1,197,750	612,310
Intangible assets		431,225	210,838
Project development costs		130,615	5,908
Derivative financial instruments		8,167	9,534
Deferred tax assets		10,458	13,178
Goodwill		8,269	8,269
Other long-term assets		4,545	334
		1,975,604	947,140
Liabilities			
Current liabilities			
Dividends payable to shareholders		12,848	10,064
Accounts payable and accrued liabilities		24,399	21,746
Derivative financial instruments		11,362	8,543
Long-term debt		15,892	9,259
Contingent considerations		983	-
Income tax liabilities		2,513	2,164
		67,997	51,776
Construction holdbacks		969	76
Derivative financial instruments		61,192	22,597
Accrual for acquisition of long-term assets		73,427	-
Long-term debt		945,575	349,431
Liability portion of convertible debentures		79,450	79,334
Contingent considerations		3,684	-
Asset retirement obligations		2,500	2,384
Deferred tax liabilities		128,321	82,641
		1,363,115	588,239
Shareholders' equity			
Common share capital	5,9	1	5,720
Series A preferred shares		82,589	82,589
Contributed surplus from reduction of capital on common shares	9	656,087	453,793
Share-based compensation		1,268	928
Equity portion of convertibles debentures		1,340	1,340
Deficit		(250,547)	(188,295)
Accumulated other comprehensive income		232	238
Equity attributable to owners		490,970	356,313
Non-controlling interests		121,519	2,588
Total shareholders' equity		612,489	358,901
		1,975,604	947,140

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

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

	Number of common shares	Common share capital account	Series A preferred shares	Contributed surplus from reduction of capital on common shares	Share-based compen-sation	Equity portion of convertible debentures	Deficit	Accumula-ted other compre-hensive income	Equity attributa-ble to owners	Non-controlling interests	Share-holders' equity
Nine-month period ended September 30, 2011											
	In 000's	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance January 1, 2011	59,533	5,720	82,589	453,793	928	1,340	(188,295)	238	356,313	2,588	358,901
Common shares issued on April 4, 2011 (Note 5) :											
- public offering	17,750	163,527							163,527	-	163,527
- private placement	3,999	39,018							39,018	-	39,018
Issuance fees (Net of $2,236 of future income taxes)		(5,970)							(5,970)	-	(5,970)
Business acquisition (Note 5)									-	114,968	114,968
Reduction of capital on common shares (Note 9)		(202,294)		202,294					-	-	-
Net loss							(26,665)		(26,665)	3,963	(22,702)
Other items of comprehensive loss								(6)	(6)	-	(6)
Comprehensive loss							(26,665)	(6)	(26,671)	3,963	(22,708)
Share-based compensation					340				340	-	340
Dividends declared on common shares							(32,204)		(32,204)	-	(32,204)
Dividends declared on Series A preferred shares (including $195 of income taxes)							(3,383)		(3,383)	-	(3,383)
Balance September 30, 2011	81,282	1	82,589	656,087	1,268	1,340	(250,547)	232	490,970	121,519	612,489

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY

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

	Nine-month period ended September 30, 2010										
	Number of common shares/ units	**Common share/unit capital account**	**Serie A preferred shares**	**Contributed surplus from reduction of capital on common shares**	**Share-based compen-sation**	**Equity portion of convertible debentures**	**Deficit**	**Accumulated other comprehen-sive income**	**Equity attributable to owners**	**Non-controlling interests**	**Share-holders' equity**
	In 000's	**$**		**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance January 1, 2010	-	-	-	-	-	-	(92,143)	73	(92,070)	-	(92,070)
Unitholder's value upon share exchange arrangement	29,404	322,296							322,296		322,296
Reduction of unitholders' capital account owned by the Corporation and not converted into common shares	(4,724)	(57,165)							(57,165)		(57,165)
Adjustment to number of units to reflect the 1.46 conversion ratio	11,353	-							-		-
Common shareholders' capital account from common shares of the Corporation already issued prior to the share exchange arrangement	23,500	193,399							193,399		193,399
Balances accounted upon share exchange arrangement (Note 6)		983			497	1,340	-	-	2,820	2,656	5,476
Reduction of capital on common shares		(453,793)		453,793					-		-
Series A preferred shares issued on September 14, 2010			82,740						82,740	-	82,740
Net loss							(83,487)		(83,487)	39	(83,448)
Other items of comprehensive loss								11	11		11
Comprehensive loss							(83,487)	11	(83,476)	39	(83,437)
Share-based compensation					279				279		279
Dividends declared on common shares							(17,453)		(17,453)		(17,453)
Balance September 30, 2010	59,533	5,720	82,740	453,793	776	1,340	(193,083)	84	351,370	2,695	354,065

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Notes	Nine-month period ended Sept. 30, 2011 $	Nine-month period ended Sept. 30, 2010 $
Operating activities			
Net loss		(22,702)	(83,448)
Items not affecting cash:			
Depreciation of property, plant and equipment		22,180	13,937
Amortization of intangible assets		14,517	9,822
Compensation interest	15	5,266	-
Amortization of financing fees	15	140	713
Amortization of revaluation of long-term debt and convertible debenture	15	749	(30)
Accretion expense on asset retirement obligations	15	116	465
Accretion expenses on contingent considerations	15	104	-
Share-based compensation		340	279
Unrealized net loss on derivative financial instruments		41,883	36,240
Unrealized loss on unitholders' capital		-	51,761
Deferred tax provision (recovery)		(6,978)	(7,466)
Unrealized net loss (gain) on foreign exchange		27	(8)
Expense related to royalty agreement upon share exchange arrangement	6	-	983
Others		(5)	82
Effect of exchange rate fluctuations		(37)	(53)
Interest on long-term debt and convertible debentures	15	31,445	15,573
Interest paid		(30,168)	(14,018)
Loss on contingent considerations		2,711	-
Contingent considerations paid		(1,145)	-
Distributions declared to unitholders		-	7,238
Distributions paid to unitholders		-	(9,688)
Current income taxes recovery		(921)	(1,286)
Income taxes paid		(234)	(2,125)
		57,288	18,971
Changes in non-cash operating working capital items	12	(23,684)	(21,427)
		33,604	(2,456)
Financing activities			
Dividends paid on common units		(29,050)	(8,822)
Dividends paid on Series A preferred shares		(3,558)	-
Increase of long-term debt		156,252	116,820
Repayment of bank loan		-	(12,900)
Repayment of long-term debt		(20,870)	(202,917)
Payment of deferred financing costs		(5,557)	(1,749)
Issuance of common share capital	5	155,321	-
Net proceeds from issuance of Serie A preferred shares		-	82,338
		252,538	(27,230)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Notes	Nine-month period ended Sept. 30, 2011 $	Nine-month period ended Sept. 30, 2010 $
Investing activities			
Cash acquired on business acquisitions	5, 6	4,943	88,394
Business acquisitions	5	(160,844)	-
Additions to property, plant and equipment		(103,544)	(19,923)
Additions to intangible assets		(415)	(267)
Additions to project development costs		(15,775)	(7,407)
Additions to other long-term assets		(724)	(96)
Increase of restricted cash and short-term investments		(11,640)	-
Short-term loan to a partner		-	(1,000)
Proceeds from disposal of property, plant and equipment		4	298
Net funds withdrawn from the levelization reserve		494	570
Net funds withdrawn from (invested into) the wind/hydro reserve		4,805	(2,336)
Net funds withdrawn from (invested into) the major maintenance reserve accounts		1,494	(142)
		(281,202)	58,091
Effects of exchange rate changes on cash and cash equivalents		223	(46)
Net increase in cash and cash equivalents		5,163	28,359
Cash and cash equivalents, beginning of period		42,116	9,352
Cash and cash equivalents, end of period		47,279	37,711
Cash and cash equivalents is comprised of:			
Cash		14,103	13,783
Short-term investments		33,176	23,928
		47,279	37,711

Additional information is presented in Note 12.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

DESCRIPTION OF BUSINESS

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

Pursuant to the share exchange arrangement as described in Note 6, the Corporation acquired 100% of the issued and outstanding units of Innergex Power Income Fund ("the Fund") by issuing 36,033 thousands common shares of the Corporation. The Fund was an unincorporated open-ended trust established on October 25, 2002 under the laws of the Province of Quebec. The Fund, which began operations on July 4, 2003, was established to indirectly acquire and own interests in renewable power generating facilities. Legally, the Corporation became the parent of the Fund. However, as a result of the transaction, control of the combined entity was passed to the unitholders of the Fund, and the Fund is identified as the acquirer for accounting purposes in accordance with International Financial Reporting Standards ("IFRS"). This type of share exchange is referred to as a "reverse acquisition". In a reverse acquisition situation, the legal parent is deemed to be a continuation of the acquiring enterprise, i.e., the legal subsidiary. As a result, the consolidated financial statements are a continuation of the consolidated financial statements of the Fund. The capital stock represents the authorized and issued share of the legal parent and the dollar amount of shareholders' equity is that of the Fund.

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

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

These condensed consolidated financial statements were approved by the Board of Directors on November 9, 2011.

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

These financial statements do not contain all disclosures required by the IFRS for annual financial statements and, accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Corporation's latest annual report. The impact of the transition from the previous Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS was presented in Notes 1 and 2 of the March 31, 2011 condensed consolidated financial statements.

These condensed consolidated financial statements have been prepared in accordance with the accounting policies described in Note 3.

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

Principal subsidiaries

The following provides information about the principal subsidiaries of the Corporation as of September 30, 2011. All subsidiaries reside in Canada except the Horseshoe Bend Hydroelectric Company that resides in the USA.

Subsidiary	Voting power owned (2)	Accounting method used
	%	
Innergex, L.P.	100	Consolidation
Innergex Montmagny, L.P.	100	Consolidation
Hydro-Windsor, L.P.	100	Consolidation
Trent-Severn Power, L.P.	100	Consolidation
Horseshoe Bend Hydroelectric Company	100	Consolidation
Rutherford Creek Power L.P.	100	Consolidation
Innergex AAV, L.P. (1)	100	Consolidation
Innergex BDS, L.P. (1)	100	Consolidation
Innergex CAR, L.P. (1)	100	Consolidation
Innergex GM, L.P. (1)	100	Consolidation
Innergex MS, L.P. (1)	100	Consolidation
Glen Miller Power, L.P.	100	Consolidation
Ashlu Creek Investments, L.P.	100	Consolidation
Cloudworks Energy Inc. (3)	100	Consolidation
Solaris Energy Partners Inc. (4)	100	Consolidation
Fitzsimmons Creek Hydro, L.P.	66.67	Consolidation with non-controlling interest
Creek Power Inc.	66.67	Consolidation with non-controlling interest
Douglas Creek Project L.P. (3)	50.01	Consolidation with non-controlling interest
Fire Creek Project L.P. (3)	50.01	Consolidation with non-controlling interest
Lamont Creek Project L.P. (3)	50.01	Consolidation with non-controlling interest
Stokke Creek Project L.P. (3)	50.01	Consolidation with non-controlling interest
Tipella Creek Project L.P. (3)	50.01	Consolidation with non-controlling interest
Upper Stave Project L.P. (3)	50.01	Consolidation with non-controlling interest
Kwoiek Creek Resources, L.P.	50	Consolidation with non-controlling interest
Viger-Denonville, L.P.	50	Proportional consolidation
Umbata Falls, L.P.	49	Proportional consolidation

(1) Undivided owner of a 38% stake in the l'Anse-à-Valleau, Baie-des-Sables, Carleton, Gros-Morne and Montagne Sèche wind farms.
(2) % of ownership and % of voting power held are the same except for Kwoiek Creek project where the Corporation owns more than 50% of the economic interest.
(3) Results are consolidated since the acquisition on April 4, 2011.
(4) Results are consolidated since the acquisition on April 20, 2011.

1. FIRST TIME ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

1.1 IFRS 1 Application

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

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

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

1.2 Reconciliation between IFRS and Canadian GAAP

The following reconciliations detail the transitional effect to the IFRS:

- Statement of Earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2010 (Note 1.2.1)
- Shareholders' equity as at September 30, 2010 (Note 1.2.2)

Other reconciliations were presented in Notes 1 and 2 of the March 31, 2011 condensed consolidated financial statements.

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

1.2.1 Reconciliation of statement of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2010

	Three-month period ended September 30, 2010			
Condensed consolidated statements of earnings	**Canadian GAAP**	**IFRS transition effect**		**IFRS**
	$	**Notes**	**$**	**$**
Revenues				
Operating	24,716	a)	485	25,201
Expenses				
Operating	3,299	a)	485	
		b)	(30)	3,754
Share-based compensation	126	c)	60	186
General and administrative	1,097			1,097
	4,522		515	5,037
Earnings from operations	20,194		(30)	20,164
Prospective projects expenses	440			440
Earnings before interests, income taxes, depreciation and amortization and other items	19,754		(30)	19,724
Finance costs	6,373	b)	214	6,587
Realized gain on foreign exchange	(49)			(49)
Other net revenues	(11)			(11)
Earnings before income taxes, depreciation and amortization and other items	13,441		(244)	13,197
Depreciation	5,147	e)	279	5,426
Amortization	3,408	f)	280	3,688
Unrealized net loss on derivative financial instruments	20,098			20,098
Unrealized net gain on foreign exchange	(8)	h)	(4)	(12)
Loss before income taxes	(15,204)		(799)	(16,003)
Recovery of income taxes				
Current	(264)			(264)
Deferred	(4,036)	i)	(207)	(4,243)
	(4,300)		(207)	(4,507)
Net loss	(10,904)		(592)	(11,496)
Net loss attributable to:				
Owners of the parent	(10,904)		(686)	(11,590)
Non-controlling interests	-		94	94
	(10,904)		(592)	(11,496)

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

1.2.1 Reconciliation of statement of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2010 (continued)

	Three-month period ended September 30, 2010			
Condensed consolidated statements of Comprehensive income	**Canadian GAAP**	**IFRS transition effect**		**IFRS**
	$	**Notes**	**$**	**$**
Net loss	(10,904)		(592)	(11,496)
Other items of comprehensive loss				
Unrealized foreign exchange (loss) gain on translation of a self-sustaining foreign subsidiary (net of nil income tax)	(150)	k)	4	(146)
Unrealized foreign exchange gain (loss) on the designated portion of the US$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary (net of nil income tax)	165	k)	(4)	161
	15		-	15
Comprehensive loss	(10,889)		(592)	(11,481)
Total comprehensive loss attributable to:				
Owners of the parent	(10,889)		(686)	(11,575)
Non-controlling interests	-		94	94
	(10,889)		(592)	(11,481)

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

1.2.1 Reconciliation of statement of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2010 (continued)

	Nine-month period ended September 30, 2010			
Condensed consolidated statements of earnings	**Canadian GAAP**	**IFRS transition effect**		**IFRS**
	$	**Notes**	**$**	**$**
Revenues				
Operating	63,091	a)	1,463	64,554
Expenses				
Operating	8,451	a)	1,463	
		b)	(80)	9,834
Share-based compensation	203	c)	76	279
General and administrative	4,006			4,006
	12,660		1,459	14,119
Earnings from operations	50,431		4	50,435
Prospective projects expenses	1,202			1,202
Earnings before interests, income taxes, depreciation and amortization and other items	49,229		4	49,233
Finance costs	16,256	b)	465	16,721
Transaction costs	-	d)	5,330	5,330
Realized gain on derivative financial instruments	(555)			(555)
Realized gain on foreign exchange	(26)			(26)
Other net revenues	(10)			(10)
Earnings before income taxes, depreciation and amortization and other items	33,564		(5,791)	27,773
Depreciation	13,197	e)	740	13,937
Amortization	9,424	f)	398	9,822
Unrealized net loss on derivative financial instruments	36,240			36,240
Unrealized loss on unitholders' capital	-	g)	51,761	51,761
Expense related to royalty agreement upon share exchange arrangement	983			983
Unrealized net gain on foreign exchange	(6)	h)	(2)	(8)
Loss before income taxes and distributions	(26,274)		(58,688)	(84,962)
Recovery of income taxes				
Current	(1,286)			(1,286)
Deferred	(7,061)	i)	(405)	(7,466)
	(8,347)		(405)	(8,752)
Net loss before distributions declared to unitholders	(17,927)		(58,283)	(76,210)
Distributions declared to unitholders	-	j)	7,238	7,238
Net loss	(17,927)		(65,521)	(83,448)
Net loss attributable to:				
Owners of the parent	(17,927)		(65,560)	(83,487)
Non-controlling interests	-		39	39
	(17,927)		(65,521)	(83,448)

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

1.2.1 Reconciliation of statement of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2010 (continued)

	Nine-month period ended September 30, 2010			
Condensed consolidated statements of comprehensive Income	**Canadian GAAP**	**IFRS transition effect**		**IFRS**
	$	**Notes**	**$**	**$**
Net loss	(17,927)		(65,521)	(83,448)
Other items of comprehensive loss				
Unrealized foreign exchange (loss) gain on translation of a self-sustaining foreign subsidiary (net of nil income tax)	(90)	k)	2	(88)
Unrealized foreign exchange gain (loss) on the designated portion of the US$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary (net of nil income tax)	101	k)	(2)	99
	11		-	11
Comprehensive loss	(17,916)		(65,521)	(83,437)
Total comprehensive loss attributable to:				
Owners of the parent	(17,916)		(65,560)	(83,476)
Non-controlling interests	-		39	39
	(17,916)		(65,521)	(83,437)

a) EcoEnergy program

Under IAS-18, gross revenues must be presented. The Corporation is entitled to subsidies under the EcoEnergy program. The subsidies are equal to 1 cent per KWh produced at various facilities, including the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms, for the first 10 years following commissioning of each facility. As per the electricity purchase agreements, the Corporation must transfer 75% of the Carleton, Baie-des-Sables and l'Anse-à-Valleau wind farms subsidy to Hydro-Québec. Net EcoEnergy subsidies were included in the operating revenues of the facilities. Gross EcoEnergy subsidies are now included in the operating revenues of the facilities resulting in a respective operating revenues increase of $485 and $1,463 for the three-month and nine-month periods ending September 30, 2010. A corresponding adjustment for the 75% transfer to Hydro-Québec is included in operating expenses of the facilities.

b) Accretion expense on asset retirement obligation

Under IAS 37, accretion expense on asset retirement obligation must be adjusted to reflect the obligation by discounting the estimated future cash flows with an appropriate rate determined as of the balance sheet date and must be accounted for as Financial expense. The rates at which the cash flows have been discounted were adjusted. For the three-month period ending September 30, 2010, this resulted in an increase of $184 of Accretion expense on asset retirement obligation for a total expense of $214. The $30 Accretion expense on asset retirement obligation accounted for under Canadian GAAP was reclassed from the Operating expenses to the Finance costs. For the nine-month period ending September 30, 2010, it resulted in an increase of $385 of Accretion expense on asset retirement obligation for a total expense of $465. The $80 Accretion expense on asset retirement obligation accounted for under Canadian GAAP was reclassed from the Operating expenses to the Finance costs.

c) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. This resulted in a respective increase of $60 and $76 for the three-month and nine-month periods ending September 30, 2010 of the Share-based compensation expense.

1.2.1 Reconciliation of statement of earnings and comprehensive income for the three-month and nine-month periods ended September 30, 2010 (continued)

d) Transaction costs

Under IFRS 3, transaction costs incurred in a business combination must be expensed in the period they are incurred whereas they were capitalized under section 1581 of the CICA Handbook. As a result, the Transaction costs of $5,330 for the nine-month period ending September 30, 2010, related to the share exchange arrangement described in Note 6 are expensed as incurred.

e) Depreciation

Under IAS 16, depreciation of property, plant and equipment is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives. This resulted in a respective increase of depreciation of $279 and $740 for the three-month and nine-month periods ending September 30, 2010.

f) Amortization

The Corporation performed an impairment test on January 1, 2010 and, accordingly, the carrying amounts of some intangibles were impaired. This resulted in a respective lower amortization expense of $172 and $516 for the three-month and nine-month periods ending September 30, 2010.

Under IFRS 3, the measurement date for equity issued is different than under section 1581 of the CICA Handbook and the non-controlling interests were measured at the non-controlling interests' proportionate share of the net assets acquired on the share exchange arrangement. This resulted into an increase in fair value of intangible assets. For the three-month and nine-month periods ended September 30, 2010, the amortization expense was increase by $452 and $914, respectively.

Those two elements resulted in a respective net entry in the amortization expense of $280 and $398 for the three-month and nine-month periods ending September 30, 2010.

g) Unrealized loss on unitholders' capital

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

h) Unrealized foreign exchange gain

Adjustments made to the foreign subsidiary regarding the depreciation resulted in a respective net adjustment of $4 and $2 for the three-month and nine-month periods ending September 30, 2010.

i) Deferred tax expense

Adjustments made to elements identified in the consolidated statement of earnings explain the respective increase in deferred tax recovery of $207 and $405 for the three-month and nine-month periods ended September 30, 2010.

j) Distributions declared to unitholders

Under IAS 32, the unitholders' capital is reclassified as a long-term liability. Accordingly, distributions declared to unitholders in an amount of $7,238 were included in the net loss for the nine-month period ending September 30, 2010, instead of being accounted as distributions.

k) Comprehensive income

The effect of the adjustments to depreciation and amortization and deferred income tax expenses of the foreign subsidiaries resulted to a net adjustment of nil to the comprehensive income.

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

1.2.2 Reconciliation of shareholders' equity as at September 30, 2010

Shareholders' equity	Canadian GAAP	IFRS transition effect		IFRS
	$	Notes	$	$
Common share capital	1	a)	5,719	5,720
Serie A preferred shares	82,740		-	82,740
Contributed surplus from reduction of capital on common shares	420,627	a)	20,551	
		b)	12,615	453,793
Share-based compensation	700	c)	76	776
Equity portion of convertible debentures	1,841	d)	(501)	1,340
Total deficit	(162,892)	b)	(12,615)	
		c)	(76)	
		e)	(39)	
		f)	(2,778)	
		g)	(593)	
		h)	(12,464)	
		i)	(6,000)	
		j)	4,372	
		k)	2	(193,083)
Total cumulative other comprehensive income	82	f)	4	
		k)	(2)	84
Equity attributable to shareholders	343,099		8,271	351,370
Non-controlling interests	-	e)	2,695	2,695
Total shareholders' equity	343,099		10,966	354,065

a) Common share capital

Under section 1581 of the CICA Handbook, the measurement date for equity interests issued by the acquirer is a few days before and after terms are agreed to and announced. Under IFRS 3 the measurement date for equity interests issued by the acquirer is the acquisition date. The difference in these method resulted in an increase of $26,270 in the fair market value of Fund units that would have to be issued in order to provide the same percentage of ownership of the combined entity to the unitholders of the Fund. This increase is recognized in common share capital and contributed surplus for $5,719 and $20,551 respectively.

b) Unitholders' capital

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

c) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. This resulted in an increase of $76 of the Share-based compensation expense with corresponding entries in the total deficit.

d) Equity portion of convertible debentures

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

1.2.2 Reconciliation of shareholders' equity as at September 30, 2010 (continued)

e) Non-controlling interests

Under IFRS 3, for each business combination, at the acquisition date, the acquirer is required to measure components of non-controlling interests in the acquiree that have an ownership interest and entitle their holders to a proportionate share of the entity's net assets at fair value. Therefore, the Corporation recognized an amount of $2,656 as non-controlling interests in the share exchange arrangement. For the nine-month period ending September 30, 2010, a gain of $39 was allocated to the non-controlling interest. The net adjustment to the non-controlling interests is $2,695.

f) Property, plant and equipment

Under IAS 16, accumulated depreciation of property, plant and equipment is adjusted to reflect the depreciation of significant components based on their respective estimated useful lives. The accumulated depreciation of property, plant and equipment is increased by $2,774 resulting in a lower book value with corresponding entries in the total deficit ($2,778) and the total cumulative other comprehensive income ($4).

g) Asset retirement obligations

Under IAS 37, accretion expense on asset retirement obligation must be adjusted to reflect the obligation by discounting the estimated future cash flows with an appropriate rate determined as of the balance sheet date. The rate at which the cash flows have been discounted was adjusted, resulting in an increase of Accretion expense on asset retirement obligations of $593.

h) Intangible assets

On January 1, 2010, the Corporation performed an impairment test and, accordingly, the carrying amount of some intangible assets was impaired by an amount of $12,066. The impact of the impairment test resulted in a lower amortization expense by an amount of $516. The net adjustment is $11,550.

Under IFRS 3, the measurement date for equity issued is different than under section 1581 of the CICA Handbook and the non-controlling interests were measured at the non-controlling interests' proportionate share of the net assets acquired on the Share exchange arrangement which resulted in a different purchase price allocation. The Amortization expense was increased by $914 resulting from a higher allocation to the Intangible assets.

Those two elements resulted in a net entry in the total deficit of $12,464.

i) Other long-term assets

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

j) Deferred income taxes

Adjustments made to the carrying values of Property, plant and equipment, Intangible assets, Asset retirement obligations, Long-term debt and Convertible debentures explain most of the $4,372 variation in deferred income taxes.

k) Unrealized foreign exchange loss (gain)

Adjustments made to the foreign subsidiary regarding the depreciation and the deferred income taxes resulted in a net adjustment of $2 into the deficit and ($2) into the accumulated other comprehensive income.

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These condensed consolidated financial statements have been prepared using accounting policies consistent with IFRS and in accordance with IAS-34 Interim Financial Reporting. The unaudited condensed consolidated financial statements for the three-month period ended March 31, 2011 were the first financial statements issued by the Corporation that were prepared under IFRS. These condensed consolidated financial statements are the Corporation's third IFRS condensed consolidated interim financial statements being part of the period covered by the first IFRS annual financial statements ending on December 31, 2011.

Previously to 2011, the Corporation prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP.

The disclosure provided into this third set of condensed consolidated interim financial statements in accordance with IFRS, exceed the minimum requirements under IAS-34. The Corporation has elected to exceed the minimum requirements in order to present the Corporation's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Corporation's 2010 third quarter interim unaudited consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Corporation may not provide the same amount of disclosure in the Corporation's interim condensed consolidated financial statements under IFRS as the reader will be able to rely on the annual 2011 consolidated financial statements which will be prepared in accordance with IFRS.

The standards available as of September 30, 2011 are subject to change and may be affected by additional interpretations. Accordingly, the accounting policies will be finalized when the first annual IFRS financial statements are prepared for the year ending December 31, 2011.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Joint ventures

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

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

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

Business combinations

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

Non-controlling interests

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

Cash and cash equivalents

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

Restricted cash and short-term investments

The Company holds restricted cash and short-term investments designed to help ensure its stability.

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

The availability of funds in the restricted cash and short-term investments accounts may be restricted by credit agreements.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserve accounts

The Corporation holds three types of reserve accounts designed to help ensure its stability. The first is the hydrology/wind reserve established at the start of commercial operations at a facility to compensate for the variability of cash flows related to fluctuations in hydrology or wind conditions or other unpredictable events. The amounts in the reserve are expected to vary from quarter to quarter according to the seasonality of cash flows. The second is the major maintenance reserve established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity. The third is the levelization reserve which was established to level the monetary contribution from the power plants in order to make distributions or pay dividends. This reserve was extinguished in the first quarter of 2011.

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

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

Property, plant and equipment

Property, plant and equipment, comprised mainly of hydroelectric and wind farm facilities, are recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation of hydroelectric power generating facilities is based on the estimated useful lives of the assets using the straight-line method over the lesser of (i) a period of 15 to 75 years or (ii) the period for which the Corporation owns the rights to the assets. Depreciation of wind farm facilities is based on the estimated useful lives of the assets using the straight-line method over the lesser of (i) a period of 15 to 25 years or (ii) the period for which the Corporation owns the rights to the assets. Others equipment are depreciated using the straight-line method over a period extending from 3 to 10 years. Improvements that increase or extend the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred. Property, plant and equipment are not depreciated until they are ready for their intended use.

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

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

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

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

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

The useful life used to calculate depreciation is as follows:

Type of property, plant and equipment	Ending years of depreciation period	Useful life for the depreciation period
Hydroelectric facilities	2019 to 2079	15 to 75 years
Wind farm facilities	2021 to 2033	15 to 25 years

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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

Intangible assets

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

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

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

The useful life used to calculate amortization is as follows:

Intangible assets related to :	Ending years of amortization period	Useful life for the amortization period
Hydroelectric facilities	2014 to 2050	11 to 40 years
Wind farm facilities	2026 to 2028	19 to 20 years
Extended warranty	2011 to 2013	3 years

Project development costs

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Goodwill

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

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

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

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.

Provision and asset retirement obligations

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

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

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

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

The Corporation has made the following classification:

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

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

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

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

- Short-term investments and Government-backed securities included in Reserve accounts are classified as assets held to maturity and recorded at amortized cost.

- Accounts payable and accrued liabilities, dividends payable to shareholders, construction holdbacks, accrual for acquisition of long-term assets, long-term debts and convertible debentures are classified as other financial liabilities and are recorded at amortized cost.

- The Corporation does not hold any available-for-sale financial assets.

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial assets or liabilities measured at fair value are cash and cash equivalents, restricted cash and short-term investments and cash and cash equivalents included in reserve accounts which are level 1 and derivative financial instruments which are level 3 for inflation provision and level 2 for interest rate swap and bond forward contracts.

Hedging relationships

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

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

Revenue recognition

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

Government assistance

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

The Corporation is entitled to subsidies under the EcoEnergy program. The subsidies are equal to 1¢ per KWh produced at the Ashlu Creek, Fitzsimmons Creek, Douglas Creek, Fire Creek, Stokke Creek, Tipella Creek, Lamont Creek, Upper Stave River and Umbata Falls hydro facilities and at the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms for the first 10 years following commissioning of each facility. As per the electricity purchase agreements, the Corporation must transfer 75% of the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms subsidy to Hydro-Quebec. Gross EcoEnergy subsidies are included in the operating revenues and the 75% payable to Hydro-Québec for the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms are included in the operating expenses.

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

Share-based compensation

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

Foreign currency translation

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Income taxes

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

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

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

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

Earnings per share

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

The Corporation uses the treasury stock method and the converted method for calculating diluted earnings per share. Diluted earnings per share are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed conversion of convertible debentures and the exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that convertible debentures were converted and that outstanding stock options and/or warrants were exercised and that the proceeds from such exercises were used to acquire shares at the average market price during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant estimates and assumptions

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

Critical judgments

Fair Value of Financial Instruments

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

Useful Lives of Property, Plant and Equipment

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

Goodwill Impairment

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

Property, plant and equipment and Intangible impairment

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

Income Taxes

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

4. CHANGES IN ACCOUNTING POLICIES

IAS 1 Presentation of Items of Others Comprehensive Income

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income between those that are reclassed to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. The Corporation is evaluating the impact that this standard may have on its results of operations and financial position.

IFRS 9 – Financial instrument

The standard will be effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

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

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

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

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

IFRS 10 – Consolidated Financial Statement

In May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. The Corporation is evaluating the impact that this standard may have on its results of operations and financial position.

IFRS 11 – Joint arrangements

IAS 31 – Investments in Joint Ventures was under revision by the IASB and the new standard IFRS 11 – Joint Arrangements was published in May 2011. The effective date for the application of the revised standard is January 1, 2013. IFRS 11 will require investment in joint ventures to be accounted for using the equity method. This will result in significant changes in the presentation of the statements of financial position and the statements of earnings. Net earnings/loss and net assets are not expected to differ as a result of applying the equity method of accounting. However, the balances of each line item on the statements of financial position and the statements of earnings are expected to change significantly.

Several investments in associates and joint ventures are consolidated in the Corporation under IFRS. These investments are either, fully consolidated or proportionally consolidated. Under the IFRS 11 revised standard, some of these investments might have to be accounted for as investments on the statements of financial position with their results recognized as share of net earnings of an entity subject to significant influence. The Corporation has not completed its review of the new IFRS 11 standard.

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

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. The Corporation is evaluating the impact that this standard may have on its results of operations and financial position.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. The Corporation is evaluating the impact that this standard may have on its results of operations and financial position.

5. BUSINESS ACQUISITIONS

a) Acquisition of Cloudworks Energy Inc.

On April 4, 2011, the Corporation finalized the acquisition of the entire issued and outstanding shares of Cloudworks Energy Inc. (“Cloudworks”) (the “Cloudworks Acquisition”). The aggregate consideration was $191,083, $149,669 of which was payable in cash (the “Cash Consideration”), $39,018 of which was payable by the issuance, by way of private placement, of common shares of the Corporation at a price of $9.75 per common share and $2,396 which is payable by way of contingent considerations.

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

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

To finance the Cash Consideration, the Corporation sold subscription receipts of the Corporation through a syndicate of underwriters on a bought-deal basis. The agreement with the syndicate included the issuance of 17,750 thousands subscription receipts at a price of $9.35 per subscription receipt to raise gross proceeds of $165,963. The proceeds of the subscription receipt financing were held in escrow pending the completion of the Cloudworks Acquisition. The subscription receipts have therefore been exchanged on a one-for-one basis for common shares of Innergex upon the closing of the Acquisition for no additional consideration.

i. The net proceeds from the subscriptions option along with the private placement was determined as follows:

	Subscriptions	Private placement	Total
Shares issued (in 000’s)	17,750	3,999	21,749
Price of shares ($ per share)	9.35	9.7549	9.42
Value of shares that have been issued	165,963	39,018	204,981
Issuance fees			(8,206)
Dividend equivalent payment refunded to subscriptions holders			(2,436)
Net proceeds			194,339

From the net proceeds of $194,339 a total of $188,687 was used for the acquisition of Cloudworks. The balance was used by the Corporation to enhance its financial flexibility, to reduce indebtness and for general corporate purposes.

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

5. BUSINESS ACQUISITIONS (CONTINUED)

ii. At closing of the Acquisition, the Corporation acquired from Cloudworks' shareholders their equity interests in Cloudworks, such that Cloudworks became wholly-owned by the Corporation, which was effectively paid by $143,589 ($149,669 from shares issued net of $6,080 of repayment of the bank loan) in cash and by the issue to Cloudworks' shareholders of 3,999 thousands common shares of the Corporation for $39,018 and certain contingent considerations based on the performance of the Cloudworks portfolio of assets.

iii. The total estimated purchase price has been calculated as follows:

	$
Purchase price to vendors	188,687
Contingent considerations	2,396
Total purchase price	191,083

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

	Purchase price allocation
	$
Cash and cash equivalents	4,942
Restricted cash and short-term investments	37,693
Accounts receivable	3,080
Prepaid and others	211
Reserve Accounts	28,601
Property, plant and equipment	438,541
Intangible assets	225,573
Project development costs	100,746
Deferred tax assets	1,654
Other long-term assets	2,936
Accounts payable and accrued liabilities	(12,810)
Current portion of long-term debt	(6,963)
Long-term debt	(459,273)
Deferred tax liabilities	(58,880)
Non-controlling interests	(114,968)
Net assets acquired	191,083

The estimated purchase price and purchase price allocation remains subject to the completion of the valuation of the property, plant and equipment, intangible assets, project development costs, deferred tax, non-controlling interest and consequential adjustments.

The transaction costs relating to the Acquisition have been expensed as transaction costs of the business combination in accordance with IFRS 3.

v. The share purchase agreement provides for the potential contingent considerations of additional amounts to the vendors over a period of more than 40 years. The fair market value of the contingent considerations to be paid was estimated at $2,396.

Additional cash flows generated from the assets acquired are expected to further increase the Corporations liquidity and flexibility to fund the development of future projects. By adding the recently commissioned low-risk hydroelectric facilities to its portfolio of assets, the Corporation believes it is improving the stability of its cash flows and the sustainability of its dividend. Also, the transaction is expected to be accretive to the Corporation's upon commissioning of three run-of-river hydroelectric projects under development with 40-year power purchase agreements with a potential installed capacity of 76 MW. Furthermore, through the transaction, the Corporation is significantly expanding its footprint in British Columbia.

If the acquisition had taken place on January 1, 2011, the consolidated revenues and net loss for the three-month period ended September 30, 2011 would have been $50,465 and $21,598 respectively and $121,516 and $29,923 respectively for the nine-month period ended September 30, 2011.

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

5. BUSINESS ACQUISITIONS (CONTINUED)

The amounts of revenue and net income of Cloudworks Energy Inc. since April 4, 2011 included in the consolidated statement of earnings are $37,825 and $6,943 respectively for the 179 days ended September 30, 2011.

b) Acquisition of Stardale Solar Project

On April 20, 2011, the Corporation finalized the acquisition of the entire issued and outstanding shares of Solaris Energy Partners Inc. ("Solaris"). The aggregate consideration, subject to certain adjustments, is approximately $11,778 of which $11,175 was payable in cash and $603 is payable by way of contingent considerations. Solaris owns the rights to develop the 33.2 MW_{DC} Stardale Photovoltaic Solar Project (the "Stardale Project"), located in Ontario, Canada.

All energy generated will be sold to Ontario Power Authority under 20-year PPAs.

The total estimated purchase price has been calculated as follow:

	$
Purchase price to vendors	11,175
Contingent considerations	603
Total purchase price	11,778

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

	Purchase price allocation
	$
Cash and cash equivalents	1
Accounts receivable	59
Property plant and equipment	3,722
Intangible assets	8,844
Other long-term assets	600
Deferred tax liabilities	(1,448)
	11,778

The estimated purchase price and purchase price allocation remains subject to the completion of the valuation of the property, plant and equipment, intangible assets, deferred tax and consequential adjustments.

The transaction costs relating to the acquisition have been expensed as transaction costs of the business combination in accordance with IFRS 3.

The share purchase agreement provides for the potential contingent considerations of additional amounts to the vendors over a period of 3 years. The fair market value of the contingent considerations to be paid was estimated at $603.

With the acquisition of the Stardale project, the Corporation positions itself in a new sector. The solar technology is proven, reliable and simple, and the Corporation believes that the construction and operational risks are minimal. In addition, the sun provides for a very stable and predictable resource which for the Corporation believes will result in the Stardale Project generating a stable stream of cash flows for the next 20 years and beyond.

If the acquisition had taken place on January 1, 2011, the consolidated revenues and profit (loss) for the three-month and the nine-month period ended September 30, 2011 would have been similar as the project is under construction and costs are capitalized.

The amounts of revenues and net profit of Stardale Solar Project since April 20, 2011 included in the consolidated statement of earnings are nil for the 163 days ended September 30, 2011.

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

6. SHARE EXCHANGE ARRANGEMENT

On March 29, 2010, the Corporation acquired from the Fund's unitholders their entire equity interests in the Fund, such that the Fund became wholly-owned by the Corporation, which was effectively paid by the issuance to the Fund's unitholders of 36,033 thousands common shares. The Fund was an unincorporated open-ended trust established on October 25, 2002 under the laws of the Province of Québec. The Fund, which began operations on July 4, 2003, was established to indirectly acquire and own interests in renewable power generating facilities. After the transaction, the Corporation fell under the control of the unitholders of the Fund. Therefore, this transaction resulted in a reverse acquisition.

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

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

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

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

The acquisition of the Corporation was accounted for under IFRS 3. The fair value of the consideration transferred is based on the number of Fund units that would have had to be issued in order to provide the same percentage of ownership of the combined entity to the unitholders of the Fund.

The total purchase price has been calculated as follows:

Units that would have had to be issued (in 000)		16,015
Weighted average of the price of Fund units at the closing date ($ per Unit)		12.08
Value of Fund units that would have had to be issued	$	193,399
Equity portion of convertible debentures (net of a $501 deferred tax)		1,340
Fair value of vested stock options		497
Total Purchase Price	$	195,236

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

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

6. SHARE EXCHANGE ARRANGEMENT (CONTINUED)

The following table reflects the purchase price allocation:

	$
Cash and cash equivalents	88,394
Accounts receivable	4,082
Prepaid and others	781
Reserve Accounts	4,163
Property, plant and equipment	266,704
Intangible assets	116,770
Investment in the Fund, an entity subject to significant influence	57,165
Derivative financial instruments	903
Other long-term assets	63
Current liabilities	(24,386)
Bank loan	(12,900)
Long-term debt and accrual for acquisition of long-term assets	(214,637)
Net deferred income taxes liabilities	(9,347)
Convertible debentures	(79,222)
Other long-term liabilities	(641)
Non-controlling interests	(2,656)
Net assets acquired	195,236

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

The portion of the unit capital of the Fund, not held by the Corporation before the transaction was reclassified from unit capital to share capital to account for the reverse take-over of the Corporation by the Fund.

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

On March 29, 2010, the 200,000 warrants of the Corporation remained outstanding but were adjusted to their fair value which was estimated to be nil. The 705,000 stock options of the Corporation that were vested were also adjusted to their fair values of $497. On August 29, 2010, the warrants expired.

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

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

If the acquisition had taken place on January 1, 2010, the consolidated revenues and net loss for the three-month period ended September 30, 2010 would have been $25,201 and ($11,496) respectively and $71,190 and ($85,592) respectively for the nine-month period ended September 30, 2010.

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Hydroelectric facilities	Wind Farm facilities	Facilities under construction	Other equipment	Total
	$	$	$	$	$	$
Gross carrying amount						
As at January 1, 2011	70	447,777	197,456	31,148	1,917	678,368
Additions	-	505	388	163,460	786	165,139
Business Acquisitions	1,815	437,185	-	1,907	1,356	442,263
Dispositions	-	-	-	-	(4)	(4)
Net foreign exchange differences	4	284	-	-	1	289
As at September 30, 2011	1,889	885,751	197,844	196,515	4,056	1,286,055
Accumulated depreciation						
As at January 1, 2011	-	(43,599)	(21,838)	-	(621)	(66,058)
Depreciation	-	(14,448)	(7,135)	-	(597)	(22,180)
Dispositions	-	-	-	-	4	4
Net foreign exchange differences	-	(71)	-	-	-	(71)
As at September 30, 2011	-	(58,118)	(28,973)	-	(1,214)	(88,305)
Net value as at September 30, 2011	1,889	827,633	168,871	196,515	2,842	1,197,750

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

Property, plant and equipment include capitalized financing costs of $1,849 as at September 30, 2011 ($607 at December 31, 2010) incurred prior to their intended use or sale.

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

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

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

8. LONG-TERM DEBT

	September 30, 2011	December 31, 2010
	$	$
Revolving credit term facility (a)		
Prime rate advances renewable until August 2016 (rate of 3.60%)	20	-
Bankers' acceptances renewable until August 2016 (rate of 2.80%)	117,780	27,400
LIBOR advances, US$13,900 renewable until August 2016 (rate of 1.91%)	14,570	13,825
Term loans		
Truck loans bearing interest between 0% and 0.9%, maturing in 2011 and 2012	83	-
Glen Miller, floating-rate term loan maturing in 2013 (rate of 2.67%)	13,750	14,500
Carleton, floating-rate term loan maturing in 2013 (rate of 2.65%)	47,436	49,083
Umbata Falls, floating-rate term loan maturing in 2014 (rate of 2.46%)	24,004	24,348
Fitzsimmons Creek, floating-rate construction loan (rate of 4.75%)	22,482	22,551
Hydro-Windsor, 8.25% fixed rate term loan maturing in 2016	5,237	5,841
Rutherford Creek, 6.88% fixed rate term loan maturing in 2024	50,000	50,000
Ashlu Creek, floating-rate term loan maturing in 2025 (rate of 2.82%)	103,115	104,406
L'Anse-à-Valleau, floating-rate term loan maturing in 2026 (rate of 2.38%)	46,265	47,891
Stardale, floating-rate construction loan (b)	54,852	-
Kwoiek Creek, 20% fixed rate term loan during development phase and 14% fixed rate during construction and operation phase	150	150
Bonds		
Harrison Operating Facilities, senior real return bond maturing in 2049 (c)	226,637	-
Harrison Operating Facilities, senior fixed rate bond maturing in 2049 (d)	215,570	-
Harrison Operating Facilities, junior real return bond maturing in 2049 (e)	26,305	-
	968,256	359,995
Deferred financing costs	(6,789)	(1,305)
	961,467	358,690
Current portion of long-term debt	(15,892)	(9,259)
Long-term portion	945,575	349,431

8. LONG-TERM DEBT (CONTINUED)

The following are the modifications to the long-term debt since the 2010 annual report:

a) Revolving term credit facility

The Corporation has amended its $170,000 revolving credit facility comprised of a $117,400 revolving credit facility (the "Operating Credit Facility") and a $52,600 revolving credit facility (the "BDS Credit Facility") for a five-year $350,000 revolving credit facility. Under this credit facility, the Operating Credit Facility has been increased to $222,400, the BDS Credit Facility remains unchanged at $52,600 and a new $75,000 revolving credit facility has been added (the "Construction Credit Facility").

b) Stardale, construction loan

The Corporation entered into a $111,700 non recourse construction loan agreement. During the third quarter of 2011, $54,852 was drawn under this construction loan. The loan is secured by the Stardale Project solar farm and matures 18 years after conversion of the construction loan into a term loan. The loan's quarterly principal payments will begin upon conversion and be based on an 18-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2011, the effective interest rate was 3.45%.

c) Harrison Operating Facilities, Senior real return bond

As part of the Cloudworks Acquisition, the Corporation assumed a $258,685 Senior Real Return bond with interest accruing at 2.96% adjusted by an inflation ratio as well as an inflation compensation interest factor. Both inflation adjustments are based on the All-items Consumer Price Index for Canada ("CPI"), not seasonally adjusted. Payments on this bond are due June 1 and December 1 each year and the bond matures on June 1, 2049. This bond was accounted for at its fair market value of $223,883 on the Cloudworks Acquisition, for an effective interest rate of 4.04%. Semi-annual payments are $5,790 before CPI adjustment. On December 1, 2031, the payment amount decreases to $4,481 before CPI adjustment where it remains until maturity. Principal repayment started June 1, 2011. The bond is secured by the Harrison Operating Facilities from the Cloudworks Acquisition.

d) Harrison Operating Facilities, Senior fixed rate bond

As part of the Cloudworks Acquisition, the Corporation assumed a $244,771 Senior Fixed Rate bond with interest accruing at 5.56%. This bond was accounted for at its fair market value of $216,433 on the Cloudworks Acquisition, for an effective interest rate of 6.66%. Payments on this bond are due March 1 and September 1 each year with the bond maturing on September 1, 2049. Semi-annual payments are $8,072 until September 1, 2030 when they decrease to $6,724 for the remainder of the term loan. Principal repayment started March 1, 2011. The bond is secured by the Harrison Operating Facilities from the Cloudworks Acquisition.

e) Harrison Operating Facilities, Junior real return bond

As part of the Cloudworks Acquisition, the Corporation assumed a $28,743 Junior Real Return Rate bond with interest accruing at 4.27% adjusted by an inflation ratio as well as an inflation compensation interest factor. This bond was accounted for at its fair market value of $25,810 on the Cloudworks Acquisition for an effective rate of 5.04%. Both inflation adjustments are based on the CPI, not seasonally adjusted. Payments on this bond are due quarterly on March 1, June 1, September 1 and December 1 each year and the bond matures on September 1, 2049. Quarterly payments are $291 before CPI adjustment until June 1, 2017 when the amount increases to $389 before CPI adjustment until maturity. Principal repayment does not commence until June 1, 2017. The bond is secured by the Harrison Operating Facilities from the Cloudworks Acquisition.

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

8. LONG-TERM DEBT (CONTINUED)

f) Summary of Harrison Operating Facilities

In addition, the credit agreements require the payment of special interest on each loan repayment date. The amount is calculated at 0.00311% per annum on the outstanding principal until the fifth anniversary of the agreement when it changes to 0.000311% per annum until maturity.

	Senior Real Return Rate Loan	Senior Fixed Rate Loan	Junior Real Return Rate Loan	Total
	$	$	$	$
Balance – April 4, 2011	223,883	216,433	25,810	466,126
Inflation compensation interest	4,737	-	528	5,265
Principal repayment	(2,313)	(1,263)	-	(3,576)
Amortization of revaluation of long-term debt	330	400	(33)	697
Balance – September 30, 2011	226,637	215,570	26,305	468,512

The increase in compensation interest is a result of the CPI rate change over the reference period.

9. SHAREHOLDERS' CAPITAL

a) Reduction of the Stated Capital Account of the common shares

On May 10, 2011, during the Annual and special meeting of shareholders of the Corporation, the special resolution to approve the reduction of the legal stated capital account maintained in respect of the common shares of the Corporation, without any payment or distribution to the shareholder was adopted. This resulted in a decrease of $202,294 of the Shareholders' capital account and an increase of $202,294 of the Contributed surplus from reduction of capital on common shares account.

b) Stock option plan

On May 10, 2011, during the Annual and special meeting of shareholders of the Corporation, the special resolution to increase the maximum number of common shares of the Corporation available for issuance pursuant to options granted under the stock option plan from 2,350,000 to 4,064,123 was adopted.

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

10. COMPUTATION OF EARNINGS AVAILABLE TO COMMON SHAREHOLDERS

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

	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
Net loss attributable to owners of the parent	(26,162)	(11,590)	(26,665)	(83,487)
Add:				
Distributions declared to former unitholders (a)	-	-	-	7,238
Less:				
Dividends declared on Series A preferred shares (including taxes)	(1,128)	-	(3,383)	-
Net loss available to common shareholders	(27,290)	(11,590)	(30,048)	(76,249)
Weighted average number of common shares/units (when considering the 1.46 conversion ratio) outstanding (in 000)	81,282	59,533	73,793	54,181
Basic net loss per share ($)	(0.34)	(0.19)	(0.41)	(1.41)
Weighted average number of common shares/units (when considering the 1.46 conversion ratio) outstanding (in 000)	81,282	59,533	73,793	54,181
Effect of dilutive stock options (in 000) (b)	61	11	70	-
Diluted weighted average number of common shares/units (when considering the 1.46 conversion ratio) outstanding (in 000)	81,343	59,544	73,863	54,181
Diluted net loss per share ($) (c)	(0.34)	(0.19)	(0.41)	(1.41)

(a) For the nine-month period ended September 30, 2010, net loss per share has been calculated using an adjusted net loss amount. The distribution to unitholders has been reclassified and excluded from the net loss for the purpose of the net loss per share calculation in order to make the calculation consistent with the current year.

(b) During the period covered by the financial statements, 1,034 thousands stock options (1,842 thousands as of September 30, 2010), nil warrants (200 thousands prior to August 29, 2010) and 7,559 thousands shares potentially issued on conversion of convertible debentures (same as of September 30, 2010) were excluded in the calculation of diluted weighted average number of shares/units outstanding.

(c) During the period covered by the financial statements, all of the issued convertible debentures, 1,034 thousands of 1,842 thousands stock options and the warrants were excluded from the calculation of diluted net loss per share as the exercise price was above the average market price of ordinary shares during the period. In addition, 808 thousands stock options were dilutive. However, they were excluded from the calculation of diluted per share figure due to a net loss available to common shareholders.

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

11. DIVIDENDS

a) Dividends on Series A preferred Shares

On August 10, 2011, the Corporation declared a dividend of $0.3125 per Series A preferred share paid on October 17, 2011 to Series A preferred shareholders of record at the close of business on September 30, 2011.

b) Dividends on Common Shares

On August 10, 2011, the Corporation declared a dividend of $0.145 per common share paid on October 17, 2011, to common shareholders of record at the close of business on September 30, 2011.

12. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

a) Changes in non-cash operating working capital items

	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$
Accounts receivable	(13,161)	(3,937)
Prepaid and others	(3,979)	(1,502)
Accounts payable and accrued liabilities	(6,544)	(15,988)
	(23,684)	(21,427)

b) Additional information

Interest paid (including capitalized interest)	31,835	14,480
Non-cash transactions		
Increase of unpaid Property, plant and equipment	61,330	3,074
Increase of unpaid Project development costs	8,186	66
Increase of unpaid issuance cost for Serie A Preferred shares	-	455
Decrease of unpaid Intangible assets	(5)	-
Decrease of unpaid Long-term assets	(50)	-
Increase of unpaid Financing fees	196	-

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

13. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
Salaries and short-term benefits	947	646	2,947	1,356
Attendance fees for members of the Board of Directors	124	100	408	460
Termination benefits	-	-	147	443
Share-based compensation	84	186	340	279
	1,155	932	3,842	2,538

14. EMPLOYEE BENEFITS

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

	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
Operating expense	795	522	1,841	1,266
Share-based compensation	84	186	340	279
General and administrative	1,348	649	3,751	1,881
Prospective projects expenses	410	576	1,300	1,100
Transaction costs	37	-	672	220
Capitalized in Property, plant and equipment	347	249	1,014	495
Capitalized in Project development costs	532	262	1,478	407
	3,553	2,444	10,396	5,648

15. FINANCE COSTS

	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
Interest on long-term debt and on convertible debentures	12,527	6,285	31,445	15,573
Compensation interest	501	-	5,266	-
Amortization of financing fees	37	81	140	713
Amortization of revaluation of long-term debt and of convertible debentures	402	7	749	(30)
Accretion expense on asset retirement obligations	58	214	116	465
Accretion expense on contingent considerations	104	-	104	-
	13,629	6,587	37,820	16,721

16. CONTINGENCIES

Cloudworks

The Cloudworks Acquisition described in Note 5 a) provides for the potential payment of additional amounts to the vendors over a period of more than 40 years from the April 4th, 2011 to the 40th anniversary of the last project under development to achieve commercial operation (or the 50 years after April 4th, 2011 if that date is earlier). Such potential deferred payments are divided into four categories: (i) deferred operating facilities payments; (ii) deferred development projects payments; (iii) deferred terminal value payment; and (iv) deferred prospective projects payments. The deferred payments are effectively intended to provide for a potential sharing of the value created if projects under development perform better than the Corporation's expectations and would result in incremental accretion to the Corporation, net of these payments.

The maximum aggregate amount of all deferred payments under the Cloudworks Acquisition is limited to a present value amount of $35,000, and for the purpose of applying such maximum aggregate payment amount, the amount of any deferred payment made is discounted to its present value amount by applying a mutually agreed upon discount rate per annum. The Corporation has the right, at any time during the five-year period after April 4th, 2011, to extinguish all its obligations to make deferred payments by making a one-time payment of the amount by which the maximum aggregate amount of deferred payments of $35,000 exceeds the present value of any deferred payments (discounted to their present value amounts by applying an agreed discount rate per annum) made prior to the exercise of such right by the Corporation.

Stardale

In connection with the Stardale acquisition described in Note 5 b), the Corporation agreed to pay contingent considerations based upon future events for a period of 3 years after April 20, 2011. These contingent considerations provide for the sharing of the potential value created if the Stardale project benefits from a better return than the Corporation's expectations and would result in incremental accretion to the Corporation, net of these payments.

17. SEGMENT INFORMATION

Geographic Segments

The Corporation has 19 hydroelectric facilities and three wind farms in Canada and one hydroelectric facility in the United States. For the three-month and the nine-month periods ended September 30, 2011, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled $1,375 and $2,542 respectively, ($1,288 and $2,389 in 2010), representing a contribution of 2.7% and 2.2% respectively, for the three-month and nine-month periods ending September 30, 2011 (5.1% and 3.7% for the three-month and nine-month periods ending September 30, 2010) to the Corporation's consolidated operating revenues for this period.

Major customers

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

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

17. SEGMENT INFORMATION (CONTINUED)

Major customer	Segment	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
		$	$	$	$
Hydro-Québec	Hydroelectric and wind power generation	11,353	9,835	40,931	34,957
British Columbia Hydro and Power authority	Hydroelectric generation	34,601	10,944	60,057	19,589
		45,954	20,779	100,988	54,546

Reportable segments

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

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

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

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

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

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

17. SEGMENT INFORMATION (CONTINUED)

	Three-month period ended September 30, 2011			
Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Site Development**	**Total**
	$	**$**	**$**	**$**
Operating revenues	44,959	5,506	-	50,465
Expenses:				
Operating	5,544	1,225	-	6,769
Share-based compensation	33	14	37	84
General and administrative	1,063	481	1,398	2,942
Prospective projects expenses	-	-	572	572
Earnings before interests, income taxes, depreciation and amortization and other items	38,319	3,786	(2,007)	40,098
Finance costs				13,629
Transaction costs				47
Realized foreign exchange loss				110
Loss on contingent considerations				2,711
Other net revenues				(338)
Earnings before income taxes, depreciation and amortization and other items				23,939
Depreciation				8,399
Amortization				5,382
Unrealized net loss on derivative financial instruments				40,510
Unrealized net gain on foreign exchange				74
Loss before income taxes				(30,426)

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

17. SEGMENT INFORMATION (CONTINUED)

	Three-month period ended September 30, 2010			
Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Site Development**	**Total**
	$	**$**	**$**	**$**
Operating revenues	19,547	5,654	-	25,201
Expenses:				
Operating	2,618	1,136	-	3,754
Share-based compensation	62	47	77	186
General and administrative	501	266	330	1,097
Prospective projects expenses	-	-	440	440
Earnings before interests, income taxes, depreciation and amortization and other items	16,366	4,205	(847)	19,724
Finance costs				6,587
Realized gain on derivative financial instruments				(49)
Other net revenues				(11)
Earnings before income taxes, depreciation and amortization and other items				13,197
Depreciation				5,426
Amortization				3,688
Unrealized net loss on derivative financial instruments				20,098
Unrealized net gain on foreign exchange				(12)
Loss before income taxes				(16,003)

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

17. SEGMENT INFORMATION (CONTINUED)

	Nine-month period ended September 30, 2011			
Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Site Development**	**Total**
	$	**$**	**$**	**$**
Operating revenues	94,182	20,944	-	115,126
Expenses:				
Operating	12,442	3,796	-	16,238
Share-based compensation	146	65	129	340
General and administrative	3,014	1,386	3,127	7,527
Prospective projects expenses	-	-	1,581	1,581
Earnings before interests, income taxes, depreciation and amortization and other items	78,580	15,697	(4,837)	89,440
Finance costs				37,820
Transaction costs				1,610
Realized foreign exchange loss				70
Loss on contingent considerations				2,711
Other net revenues				(777)
Earnings before income taxes, depreciation and amortization and other items				48,006
Depreciation				22,180
Amortization				14,517
Unrealized net loss on derivative financial instruments				41,883
Unrealized net gain on foreign exchange				27
Loss before income taxes				(30,601)

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

17. SEGMENT INFORMATION (CONTINUED)

	Nine-month period ended September 30, 2010			
Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Site Development**	**Total**
	$	**$**	**$**	**$**
Operating revenues	47,560	16,994	-	64,554
Expenses:				
Operating	6,610	3,224	-	9,834
Share-based compensation	107	64	108	279
General and administrative	1,931	961	1,114	4,006
Prospective projects expenses	-	-	1,202	1,202
Earnings before interests, income taxes, depreciation and amortization and other items	38,912	12,745	(2,424)	49,233
Finance costs				16,721
Transaction costs				5,330
Realized gain on derivative instruments				(555)
Realized gain on exchange				(26)
Other net revenues				(10)
Earnings before income taxes, depreciation and amortization and other items				27,773
Depreciation				13,937
Amortization				9,822
Unrealized net loss on derivative financial instruments				36,240
Unrealized loss on unitholders capital				51,761
Expense related to royalty agreement upon share exchange arrangement				983
Unrealized net gain on foreign exchange				(8)
Loss before income taxes and distributions				(84,962)
As at September 30, 2011				
Total assets	1,323,029	244,436	408,139	1,975,604
As at December 31, 2010				
Total assets	600,007	264,449	82,684	947,140

18. SUBSEQUENT EVENTS

a) Dividends on Series A Preferred Shares
On November 9, 2011, the Corporation declared a dividend of $0.3125 per Series A preferred share payable on January 16, 2012, to Series A preferred shareholders of record at the close of business on December 30, 2011.

18. SUBSEQUENT EVENTS (CONTINUED)

b) Dividends on Common Shares

On November 9, 2011, the Corporation declared a dividend of $0.145 per common share payable on January 16, 2012, to common shareholders of record at the close of business on December 30, 2011.

c) Bond forward transactions

After the end of the third quarter of 2011, the Corporation entered into additional $66,500 bond forward transactions to secure the interest rate on planned debt for Development Projects under permit phase. As at November 9, 2011, the Corporation had $116,500 of outstanding bond forwards expiring in March 2012 at a weighted average rate of 2.78%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This Management's Discussion and Analysis ("MD&A") has been prepared as at November 9, 2011.

The purpose of this MD&A is to provide the reader with an overview of the financial position, operating results and cash flows of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the three and nine-month periods ended September 30, 2011.

This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes for the three and nine-month periods ended September 30, 2011, and with the 2010 annual report of Innergex. **Historical financial statements and MD&A for periods ending in or up to 2010 were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated quarterly financial statements contained in this MD&A and the accompanying notes for the three and nine-month periods ended September 30, 2011, have been prepared in accordance with International Financial Reporting Standards ("IFRS").**

Comparative figures as at September 30, 2010, and December 31, 2010, were converted to IFRS and are presented as such in the condensed consolidated interim financial statements. A more detailed discussion of the impact of the conversion from Canadian GAAP to IFRS can be found in the "Accounting Changes" section of this MD&A. Furthermore, the impacts of the transition from Canadian GAAP to IFRS for the three and nine-month periods ended September 30, 2010, are presented in Note 1 of the condensed consolidated interim financial statements of the third quarter of 2011.

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

ESTABLISHMENT AND MAINTENANCE OF DC&P AND ICFR

The President and Chief Executive Officer and the Chief Financial Officer and Senior Vice President 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 Chief Financial Officer and Senior Vice President, in a timely manner, particularly during the period in which the interim and annual filings are being prepared; and (ii) the information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

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

In accordance with *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer and the Chief Financial Officer and Senior Vice President of the Corporation have certified that: (a) there were no material weaknesses relating to the DC&P and ICFR for the three-month period ended September 30, 2011; (b) they have limited the scope of the Corporation's design of DC&P and ICFR to exclude controls, policies and procedures of Cloudworks Energy Inc. ("Cloudworks"); and (c) there was no change to the ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. The design and evaluation of the operating effectiveness of Cloudworks' DC&P and ICFR will be completed within a 12-month period from the date of acquisition. Cloudworks' summary unaudited financial information is presented in the "Acquisition of Cloudworks Energy Inc." section of this MD&A.

FORWARD-LOOKING STATEMENTS

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

OVERVIEW

General

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

Acquisition of Cloudworks Energy Inc.

On April 4, 2011, Innergex announced that it had finalized the acquisition of all of the issued and outstanding shares of Cloudworks Energy Inc. (the "Cloudworks Acquisition"). Cloudworks' portfolio of assets consists of a 50.01% interest in six run-of-river hydroelectric facilities (the "Harrison Operating Facilities") with a combined gross installed capacity of 150 MW; full ownership of 75.6 MW of run-of-river hydroelectric projects under development with 40-year Power Purchase Agreements ("PPA"); and full ownership of run-of-river hydroelectric projects in various stages of development with a potential aggregate installed capacity of over 800 MW. Cloudworks' assets have increased the Corporation's installed capacity by 23% (from 325.5 MW to 400.5 MW). The Cloudworks Acquisition, including the related Development Projects, increased Innergex's weighted average remaining PPA term from approximately 21 to 25 years.

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

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

In accordance with IFRS, the results for the nine-month period ended September 30, 2011, include Cloudworks' contribution since April 5, 2011. Cloudworks' summary unaudited financial information included in the Corporation's consolidated quarterly financial statements as at September 30, 2011, is as follows:

Cloudworks' summary consolidated statements of earnings and comprehensive income	**Three-month period ended Sept. 30, 2011**	**Nine-month period ended Sept. 30, 2011**
	$	**$**
Operating revenues	21,669	37,825
Operating expenses	2,413	4,063
General and administrative expenses	504	1,166
Prospective projects expenses	223	474
EBITDA	18,529	32,122
Finance costs[1]	6,528	17,044
Other net revenues	(262)	(469)
Depreciation and amortization	4,494	8,875
Provision for income taxes	870	600
Net earnings and comprehensive income	6,899	6,072
Net earnings attributable to:		
Owners of the parent	2,421	1,933
Non-controlling interest	4,478	4,139
	6,899	6,072

1. For the three and nine-month periods ended September 30, 2011, finance costs include compensation interest of $0.5 million and $5.3 million respectively.

Cloudworks' summary consolidated statements of financial position	**Sept. 30, 2011**
	$
Current assets	61,362
Reserve accounts	29,222
Other long-term assets	768,104
Total assets	858,688
Current liabilities	14,162
Long-term liabilities	559,424
Total liabilities	573,586
Equity attributable to owners	165,995
Non-controlling interests	119,107
Shareholders' equity	285,102
	858,688

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

Cloudworks' summary consolidated statements of cash flows	**Nine-month period ended Sept. 30, 2011**
	$
Cash flows from operating activities	8,575
Cash flows from financing activities	6,397
Cash flows used by investing activities	(13,221)
Net increase in cash and cash equivalents	1,751

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

Acquisition of the Stardale Solar Project

On April 20, 2011, Innergex announced it had completed the acquisition of all the issued and outstanding shares of the entity owning the rights to develop the 33.2 MW_{DC} Stardale Photovoltaic ("PV") Solar Project (the "Stardale Project") located in Ontario.

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

The consideration to be paid under the share purchase agreement is approximately $11.1 million and is to be adjusted upwards or downwards, at such time when certain milestones are achieved, in order for Innergex to benefit from a minimum threshold internal rate of return. The contract with the engineering, procurement and construction contractor ("EPC contractor") will be adjusted upwards or downwards based upon the actual performance of the project and annual energy generation using the same minimum threshold internal rate of return.

Strategic Combination of the Fund and Innergex

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

In accordance with IFRS, the historical results for the nine-month period ended September 30, 2010, and the year ended December 31, 2010, are those of the Fund, including Innergex's contribution as of March 30, 2010.

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

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

Portfolio of Assets

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

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

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

- 23 operating facilities with an aggregate net installed capacity of 400.5 MW (gross 687.8 MW). These consist of 20 hydroelectric facilities and three wind farms with aggregate net installed capacities of 279.1 MW (gross 368.3 MW) and 121.4 MW (gross 319.5 MW) respectively. Commissioned between November 1994 and April 2010, the facilities have a weighted average age of approximately 5.9 years. They sell the generated power under long-term PPAs that have a weighted average remaining life of 20.2 years;
- 11 development projects with an aggregate net installed capacity of 311.7 MW (gross 541.7 MW) for which PPAs with public utilities have been secured. Construction was near completion on two of the projects and ongoing on another two, limited notices to proceed were issued on two more and construction is expected to begin on the remaining five projects between 2013 and 2014. The projects are expected to reach the commercial operation stage between 2011 and 2016; and
- a net capacity of more than 2,800 MW (gross 3,000 MW) in prospective projects that are at various stages of development.

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

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

INNERGEX

Renewable Energy.
Sustainable Development.

Operating Facilities

Hydro
- 100% St-Paulin, QC (8.0 MW)
- 100% Windsor, QC (5.5 MW)
- 100% Chaudière, QC (24.0 MW)
- 100% Portneuf-1, QC (8.0 MW)
- 100% Portneuf-2, QC (9.9 MW)
- 100% Portneuf-3, QC (8.0 MW)
- 100% Montmagny, QC (2.1 MW)
- 100% Glen Miller, ON (8.0 MW)
- 49% Umbata Falls, ON (23.0 MW)
- 100% Batawa, ON (5.0 MW)
- 100% Rutherford Creek, BC (49.9 MW)
- 100% Ashlu Creek, BC (49.9 MW)
- 50% Douglas Creek, BC (27.0 MW)
- 50% Fire Creek, BC (23.0 MW)
- 50% Stokke Creek, BC (22.0 MW)
- 50% Tipella Creek, BC (18.0 MW)
- 50% Lamont Creek, BC (27.0 MW)
- 50% Upper Stave River, BC (33.0 MW)
- 66⅔% Fitzsimmons Creek, BC (7.5 MW)
- 100% Horseshoe Bend, Idaho, USA (9.5 MW)

Wind
- 38% Baie-des-Sables, QC (109.5 MW)
- 38% L'Anse-à-Valleau, QC (100.5 MW)
- 38% Carleton, QC (109.5 MW)

Development Projects

Hydro
- 50% Kwoiek Creek, BC (49.9 MW)
- 100% Northwest Stave, BC (17.5 MW)
- 66⅔% Boulder Creek, BC (23.0 MW)
- 100% Tretheway Creek, BC (21.2 MW)
- 66⅔% North Creek, BC (16.0 MW)
- 66⅔% Upper Lillooet, BC (74.0 MW)
- 100% Big Silver-Shovel Creek, BC (36.9 MW)

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

Solar
- 100% Stardale, ON (33.2 MW_{DC})

Prospective Projects

Hydro
- 48% QC Project (42.0 MW)
- 100% BC Projects (819.8 MW)
- 66⅔% BC Projects (132.0 MW)

Wind
- 100% QC Projects (836.0 MW)
- 70% QC Projects - Community (98.4 MW)
- 50% Viger-Denonville, QC (24.6 MW)
- 50% QC Projects - Community (49.2 MW)
- 100% ON Projects - FIT (440.0 MW)
- 49% ON Project - FIT (25.3 MW)
- 100% BC Projects (475.0 MW)

Solar
- 100% ON Projects - FIT (59.0 MW)

	Operating Facilities	Development Projects	Prospective Projects
Hydro			
Gross capacity:	368.3 MW	238.5 MW	993.8 MW
Net capacity[1]:	279.1 MW	175.9 MW	928.0 MW
Wind			
Gross capacity:	319.5 MW	270.0 MW	1,948.5 MW
Net capacity[1]:	121.4 MW	102.6 MW	1,869.2 MW
Solar			
Gross capacity:	-	33.2 MW	59.0 MW
Net capacity[1]:	-	33.2 MW	59.0 MW
Total			
Gross capacity:	687.8 MW	541.7 MW	3,001.3 MW
Net capacity[1]:	400.5 MW	311.7 MW	2,856.2 MW

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

BUSINESS STRATEGY

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

ANNUAL DIVIDEND POLICY

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

KEY PERFORMANCE INDICATORS

The Corporation measures its performance using key performance indicators that include or could include: power generated in MWh and GWh, adjusted cash flows from operating activities; adjusted net earnings (loss); and EBITDA. These indicators are not recognized measures under IFRS and therefore may not be comparable with those presented by other issuers. The Corporation believes that these indicators are important since they provide management and the reader with additional information about its production and cash generation capabilities and facilitate the comparison of results over different periods.

SEASONALITY

The amount of energy generated by the Operating Facilities is generally dependent on the availability of water flows and the wind regime. Lower-than-expected water flows or wind regimes in any given year could have an impact on the Corporation's revenues and hence on its profitability. Innergex owns interests in 20 hydroelectric facilities, which draw on 17 watersheds and three wind farms, providing significant diversification in terms of operating revenue sources. Furthermore, given the nature of hydroelectric and wind farm production, seasonal variations are partially offset, as illustrated in the following table.

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

Operating Facilities – Estimated Long-Term Averages

Project name	Electricity purchaser	PPA expiry	Net installed capacity[1] (MW)	Average long-term production (GWh) (Net interest)[2] Q1	Q2	Q3	Q4	Total
HYDRO								
St-Paulin	HQ[3]	2014[4]	8.0	7.4	15.5	8.0	10.1	41.1
Windsor	HQ[3]	2016[4]	5.5	9.7	7.8	5.6	7.9	31.0
Chaudière	HQ[3]	2019[4]	24.0	26.0	40.8	17.6	32.2	116.7
Portneuf-1	HQ[3]	2021[5]	8.0	4.3	14.9	11.5	10.1	40.8
Portneuf-2	HQ[3]	2021[5]	9.9	10.0	20.1	19.3	19.1	68.5
Portneuf-3	HQ[3]	2021[5]	8.0	4.4	15.6	11.9	10.4	42.4
Montmagny	HQ[3]	2021[5]	2.1	1.4	3.2	1.0	2.3	8.0
Glen Miller	OPA[6]	2025	8.0	13.5	11.9	4.5	11.7	41.6
Umbata Falls	OPA[6]	2028	11.3	8.3	18.5	10.4	16.2	53.5
Batawa	OEFC[7]	2029	5.0	10.8	8.9	3.7	9.5	32.9
Rutherford Creek	BC Hydro[8]	2024	49.9	11.0	63.7	80.0	25.3	180.0
Ashlu Creek	BC Hydro[8]	2039	49.9	26.9	92.0	95.1	51.0	265.0
Douglas Creek	BC Hydro[8]	2049	13.5	13.2	40.9	18.6	19.9	92.6
Fire Creek	BC Hydro[8]	2049	11.5	17.3	40.6	18.6	17.7	94.2
Lamont Creek	BC Hydro[8]	2049	13.5	17.2	41.0	23.7	23.3	105.2
Stokke Creek	BC Hydro[8]	2049	11.0	12.5	37.2	23.2	15.2	88.0
Tipella Creek	BC Hydro[8]	2049	9.0	8.8	29.0	18.8	13.4	70.0
Upper Stave River	BC Hydro[8]	2049	16.5	16.0	53.8	47.4	27.2	144.4
Fitzsimmons Creek	BC Hydro[8]	2050	5.0	3.3	10.9	13.3	5.4	33.0
Horseshoe Bend	IPC[9]	2030	9.5	7.9	17.0	16.7	5.2	46.8
Subtotal			279.1	230.1	583.3	449.1	333.1	1,595.5
WIND								
Baie-des-Sables	HQ[3]	2026	41.6	35.7	25.0	18.6	34.1	113.4
L'Anse-à-Valleau	HQ[3]	2027	38.2	38.2	22.9	16.5	35.7	113.2
Carleton	HQ[3]	2028	41.6	38.1	28.2	24.1	39.0	129.4
Subtotal			121.4	112.0	76.0	59.2	108.8	356.0
Total		20.2 years[10]	400.5	342.1	659.3	508.3	441.9	1,951.5

1. Net installed capacity is the proportional share of the total capacity attributable to Innergex based on its ownership interest in these facilities. The remaining capacity is attributable to the strategic partners' ownership share.
2. Net interest adjusted in accordance with revenue recognition accounting rules under IFRS.
3. Hydro-Québec.
4. These PPAs are renewable at the Corporation's option for an additional term of 20 years.
5. These PPAs are renewable at the Corporation's option for an additional term of 25 years.
6. Ontario Power Authority.
7. Ontario Electricity Financial Corporation.
8. British Columbia Hydro and Power Authority.
9. Idaho Power Company.
10. Weighted average remaining life of PPAs, excluding renewal options.

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

QUARTERLY UPDATE

Highlights	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
Power generated (MWh)[1]	666,009	356,262	1,501,506	883,681
Operating revenues	50,465	25,201	115,126	64,554
EBITDA	40,098	19,724	89,440	49,233
Net loss	(21,598)	(11,496)	(22,702)	(83,448)
Dividends declared on Series A Preferred Shares	1,063	-	3,188	-
Dividends declared on common shares	11,786	8,632	32,204	24,691
Dividends declared on common shares ($ per share)	0.145	0.145	0.435	0.462

1. To be on comparative basis with the revenues computed in accordance with IFRS, the power generated for the nine-month period ended September 30, 2010, is that of the Fund including the Pre-Combination Innergex's contribution as of March 30, 2010.

In the third quarter of 2011, the increases in the power generated, operating revenues and EBITDA were due mainly to better hydrology and to the addition of the Harrison Operating Facilities (total net installed capacity of 75.0 MW) acquired as part of the Cloudworks Acquisition, to the existing 17 Operating Facilities (total net installed capacity of 325.5 MW). The increase in net loss is due mainly to the higher unrealized net loss on derivative financial instruments, which have no cash effect. In the nine-month period ended September 30, 2011, the increases in the power generated, operating revenues and EBITDA were due mainly to the addition of the Pre-Combination Innergex's five Operating Facilities (total net installed capacity of 115.8 MW) to the Fund's 12 Operating Facilities (total net installed capacity of 209.7 MW) and the addition of the Harrison Operating Facilities. The decrease in net loss for the nine-month period ended September 30, 2011, compared with 2010, came mainly from the unrealized loss of $51.8 million on unitholders' capital recorded in 2010 following the adoption of IFRS.

Adjusted Net Earnings (Loss)

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

Adjusted Net Earnings (Loss)	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
Net loss	(21,598)	(11,496)	(22,702)	(83,448)
Add (deduct):				
Non-cash expense related to royalty agreement	-	-	-	983
Unrealized net loss on derivative financial instruments	40,510	20,098	41,883	36,240
Unrealized loss on unitholders' capital	-	-	-	51,761
Unrealized net loss (gain) on foreign exchange	74	(12)	27	(8)
Deferred recoveries for income taxes associated with the above elements	(10,958)	(5,424)	(11,316)	(10,048)
Adjusted net earnings (loss)	8,028	3,166	7,892	(4,520)

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

For the third quarter of 2011, the increase in adjusted net earnings is due mainly to a $20.4 million increase in EBITDA, which is detailed in the Operating Results table, partly offset by a $7.0 million increase in finance costs, a $2.7 million loss on contingent considerations and a $4.7 million increase in depreciation and amortization.

For the nine-month period ended September 30, 2011, the increase in adjusted net earnings is due mainly to a $40.2 million increase in EBITDA, which is detailed in the Operating Results table, a $3.7 million decrease in transaction costs and $7.2 million in distributions declared to unitholders in 2010, partly offset by a $21.1 million increase in finance costs, a $2.7 million loss on contingent considerations and a $12.9 million increase in depreciation and amortization.

The unrealized loss on unitholders’ capital had a significant impact in the nine-month period ended September 30, 2010, due to the conversion to IFRS. The Corporation did not record any such loss for the nine-month period ended September 30, 2011, as the unitholders’ capital was reclassified to share capital in equity at the Combination date. Please refer to the “Unrealized loss on unitholders’ capital” section of this MD&A for more information.

Financing Activities

On July 28, 2011, the Corporation announced it had executed a loan agreement for the construction and long-term debt financing of the Stardale Project consisting of a $111.7 million non-recourse term loan and a $5.6 million letter of credit facility. The loan agreement with Bank of Tokyo Mitsubishi UFJ, Ltd. as lead arranger and administrative agent applies to the construction period and to an 18-year term following the conversion of the construction loan into a term loan.

On August 9, 2011, Innergex announced that it had completed the extension and refinancing of its $170.0 million revolving credit facility, with a five-year $350.0 million revolving credit term facility. In addition to the increased availability, the Corporation benefits from more flexibility and improved terms and conditions.

Development Projects

The Corporation owns 11 Development Projects. Construction is nearing completion on the Montagne-Sèche and Gros-Morne Phase I projects; ongoing on the Gros-Morne Phase II and Stardale projects; limited notices to proceed have been issued for Kwoiek Creek and Northwest Stave River projects; and the remaining five hydroelectric projects have entered the permit phase. The following two tables provide an overview of these Development Projects.

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

Development Projects (under construction)

Project name and location	Installed capacity (MW)	Estimated long-term average production (GWh)	Total construction costs Estimated ($M)	Total construction costs As at Sept. 30, 2011 ($M)	Expected COD[1]	Expected year-one Revenues ($M)	Expected year-one EBITDA ($M)
WIND							
Montagne-Sèche, QC[2]	58.5	193.4	103.0[3]	40.2[4]	Q4 2011	4.8[3,4]	4.3[3,4]
Gros-Morne – Phase I, QC[2]	100.5	308.9	348.5[3]	88.9[4]	Q4 2011	7.8[3,4]	6.9[3,4]
Gros-Morne – Phase II, QC[2]	111.0	341.1	for both phases		Q4 2012	8.6[3,4]	7.5[3,4]
SOLAR							
Stardale, ON	33.2 MW_{DC}	39.0	140.0	85.1	Q1 2012	16.6	15.1

1. Commercial Operation Date.
2. The Corporation owns 38% of this project.
3. See the "Construction costs and revenues adjustments of Montagne-Sèche and Gros-Morne Phase I and II" paragraph below for more details.
4. Corresponding to the Corporation's 38% interest in this project.

Montagne-Sèche
The construction of this wind farm began in the second quarter of 2010. At the end of the third quarter of 2011, all the roads had been built, the substation had been energized, all the foundations had been completed and 34 out of 39 turbines had been erected. Shortly after the end of the quarter, on October 13, 2011, the project achieved an important milestone when the last turbine was erected. Innergex expects the Montagne-Sèche project to be completed by December 1, 2011.

Gros-Morne, Phase I and II
The construction of these wind farms began in the second quarter of 2010. At the end of the third quarter of 2011, all the roads had been built for Phase I and Phase II, the substation had been energized, all the Phase I turbines had been erected and 55 out of the 74 Phase II foundations had been completed. Innergex expects the 100.5 MW Gros-Morne Phase I project to be completed by December 1, 2011, and the Gros-Morne Phase II project to be completed by December 1, 2012.

Construction costs and revenues adjustments of Montagne-Sèche and Gros-Morne Phase I and II
For each of these wind farms in the above table, the estimated total construction costs, revenues, and EBITDA are reported as at January 1, 2004 (date used in the PPA). Actual construction costs are reported in current dollars when they are incurred. In particular, each turbine supply agreement provides for an adjustment to the cost of wind turbines based on a number of indices, including Canadian and US CPI, the USD/CAD exchange rate, and a Canadian steel index. However, each PPA provides for a corresponding adjustment to the price received from Hydro-Québec for electricity delivered at COD, which is based on similar indices. These adjustments mechanisms allow the Corporation to protect the economic value of each wind farm.

For each wind farm, wind turbine costs represent approximately 65% of the total estimated construction costs. Furthermore, 90% of the price of wind turbines is payable after COD. Therefore, a significant portion of each wind farm's total estimated accrued construction costs will only be payable following their respective COD.

Stardale
The construction of this solar farm began in November 2010. At the end of the third quarter of 2011, all the roads had been built and the fencing and clearing completed. Current on-site work mainly involves construction of the substation and subarray foundations. All the PV SolarWorld modules have been received on site and racking and PV modules installation is slated to commence in November 2011. Innergex expects the Stardale project to start selling electricity during the first quarter of 2012 and to be completed by the end of the second quarter of 2012.

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

Development Projects (permit phase)

Project name and location	Installed capacity (MW)	Total construction costs Estimated ($M)	Total construction costs As at September 30, 2011 ($M)	Expected COD
HYDRO				
Kwoiek Creek, BC[1]	49.9	152.1	24.4	2013
Northwest Stave River, BC	17.5	69.8	11.0	2013
Boulder Creek, BC[2]	23.0	84.0	0.1	2015
Tretheway Creek, BC	21.2	78.1	1.4	2015
North Creek, BC[2]	16.0	71.0	0.3	2016
Upper Lillooet, BC[2]	74.0	260.0	6.5	2016
Big Silver-Shovel Creek, BC	36.9	144.9	2.6	2016

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

Kwoiek Creek
In the third quarter of 2011, the EPC contractor continued engineering and preliminary construction work under limited notices to proceed. During this quarter, the turbine supplier and the transmission line contractor both completed engineering work and procured long lead-time items under limited notices to proceed. Construction of this facility is expected to be completed in 2013.

Northwest Stave River
In the third quarter of 2011, the Corporation issued a limited notice to proceed to the EPC contractor. Current activities are focused around design iterations, geotechnical analysis for the intake design and transmission line design. Current on-site work continues to focus on access road construction, clearing, and mobilization of the EPC contractor. Construction of this facility is expected to be completed in 2013.

Boulder Creek, Tretheway Creek, North Creek, Upper Lillooet, and Big Silver-Shovel Creek
Current activities include geotechnical analysis, hydrometric monitoring, environmental studies, consultation with the various stakeholders, applications for obtaining the relevant permits and preliminary engineering. The Corporation expects Boulder Creek and Tretheway Creek to start commercial operation in 2015 and North Creek, Upper Lillooet and Big Silver-Shovel Creek to start commercial operation in 2016.

Prospective Projects
All of the Prospective Projects, with a combined potential net installed capacity of more than 2,800 MW (gross 3,000 MW), are in the preliminary development stage. Some Prospective Projects are targeted toward specific future RFPs and others will be available for future RFPs, SOPs or FIT programs yet to be announced. There is no certainty that any Prospective Project will be realized.

Since the beginning of 2011, the Corporation has submitted four applications of 10.0 MW each under the FIT Program for solar photovoltaic projects in Ontario, bringing Innergex's total number of FIT Program applications for solar photovoltaic projects to six, with a combined capacity of 59.0 MW.

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

Additional information about the Corporation's facilities and projects can be found in the Corporation's Annual Information Form for the year ended December 31, 2010, and in the Prospectus, both of which are available on Innergex's website at www.innergex.com and on the SEDAR website at www.sedar.com.

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

OPERATING RESULTS

The Corporation's operating results for the three and nine-month periods ended September 30, 2011, are compared with the operating results for the same periods in 2010. In accordance with IFRS, the results include Cloudworks' contribution since April 5, 2011. Also, due to the Combination, results of the Pre-Combination Innergex have been accounted for in the Corporation's results as of March 30, 2010.

Production

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

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

Production	**Operating period July 1 to September 30, 2011**		**Operating period July 1 to September 30, 2010**	
	Production (MWh)	Long-term average (MWh)	Production (MWh)	Long-term average (MWh)
HYDRO				
Saint-Paulin	12,623	8,038	2,410	8,038
Windsor	6,595	5,628	6,840	5,628
Chaudière	24,854	17,642	15,043	17,642
Portneuf-1	11,708	11,525	11,645	11,525
Portneuf-2	19,537	19,264	19,474	19,264
Portneuf-3	12,148	11,913	12,043	11,913
Montmagny	1,882	1,044	823	1,044
Glen Miller	6,189	4,513	9,367	4,513
Umbata Falls[1]	6,825	10,444	4,496	10,444
Batawa	4,358	3,720	6,934	3,720
Rutherford Creek	95,571	80,000	77,953	80,000
Ashlu Creek	110,053	95,135	96,382	95,135
Douglas Creek	42,924	18,603	-	-
Fire Creek	36,874	18,558	-	-
Lamont Creek	49,969	23,681	-	-
Stokke Creek	35,435	23,184	-	-
Tipella Creek	29,063	18,799	-	-
Upper Stave River	65,640	47,365	-	-
Fitzsimmons Creek	12,913	13,321	12,467	13,321
Horseshoe Bend	17,817	16,694	15,419	16,694
Subtotal	602,978	449,071	291,296	298,881
WIND				
Baie-des-Sables[2]	18,280	18,591	20,200	18,591
L'Anse-à-Valleau[2]	20,501	16,533	20,339	16,533
Carleton[2]	24,250	24,106	24,427	24,106
Subtotal	63,031	59,230	64,966	59,230
Total	666,009	508,301	356,262	358,111

1. Corresponding to the Corporation's 49% interest in this facility.
2. Corresponding to the Corporation's 38% interest in this facility.

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

The Corporation's facilities produced 666,009 MWh in the third quarter of 2011, 31% more than the long-term average of 508,301 MWh. This production level is due mainly to:

- water flows higher than the long-term average at all facilities except Umbata Falls; and
- stronger wind regimes than the long-term average at the L'Anse-à-Valleau and Carleton wind farms.

The lower production level at the Fitzsimmons Creek facility was largely the result of an intake issue that occurred during high-flow periods.

Production	Operating period January 1 to September 30, 2011		Operating period January 1 to September 30, 2010	
	Production (MWh)	Long-term average (MWh)	Production (MWh)	Long-term average (MWh)
HYDRO				
Saint-Paulin	38,044	31,004	23,228	31,004
Windsor	24,811	23,121	27,907	23,121
Chaudière	100,925	84,468	81,437	84,468
Portneuf-1	31,450	30,676	31,602	30,676
Portneuf-2	50,122	49,358	50,858	49,358
Portneuf-3	32,010	31,936	32,735	31,936
Montmagny	5,815	5,718	4,898	5,718
Glen Miller[3]	31,886	29,864	19,130	16,673
Umbata Falls[1,3]	35,889	37,272	9,755	29,162
Batawa	26,428	23,468	26,222	23,468
Rutherford Creek	152,785	154,700	149,280	154,700
Ashlu Creek[3]	210,532	214,003	178,195	187,703
Douglas Creek[4]	79,757	58,676	-	-
Fire Creek[4]	71,252	58,092	-	-
Lamont Creek[4]	81,959	63,876	-	-
Stokke Creek[4]	64,347	59,472	-	-
Tipella Creek[4]	54,006	47,127	-	-
Upper Stave River[4]	111,046	100,157	-	-
Fitzsimmons Creek[3]	19,441	27,604	18,807	24,343
Horseshoe Bend	39,132	41,577	33,812	41,577
Subtotal	1,261,637	1,172,169	687,866	733,907
WIND				
Baie-des-Sables[2]	74,203	79,250	68,831	79,250
L'Anse-à-Valleau[2]	78,638	77,581	74,262	77,581
Carleton[2,3]	87,028	90,397	52,722	53,161
Subtotal	239,869	247,228	195,815	209,992
Total	1,501,506	1,419,397	883,681	943,899

1. Corresponding to the Corporation's 49% interest in this facility.
2. Corresponding to the Corporation's 38% interest in this wind farm.
3. The 2010 long-term average was adjusted for the period during which the facility contributed to Innergex' results, as the Combination occurred on March 29, 2010.
4. The long-term average was adjusted for the period during which the facility contributed to Innergex' results, as the Cloudworks Acquisition occurred on April 4, 2011.

During the nine-month period ended September 30, 2011, the Corporation's facilities produced 1,501,506 MWh, 6% more than the long-term average of 1,419,397 MWh. This production level is due mainly to:

- water flows higher than the long-term average at most of the facilities. Those most influenced were the Saint-Paulin, Windsor, Chaudière, Glen Miller, Batawa, Douglas Creek, Fire Creek, Lamont Creek, Stokke Creek, Tipella Creek and Upper Stave River facilities; and
- stronger wind regime than the long-term average at the L'Anse-à-Valleau wind farm.

These conditions were partially offset by:

- water flows lower than the long-term average at the Umbata Falls, Rutherford Creek, Ashlu Creek, Fitzsimmons Creek and Horseshoe Bend facilities; and
- weaker wind regimes than the long-term average at the Baie-des-Sables and Carleton wind farms.

The lower production level at the Fitzsimmons Creek facility was also the result of an intake issue that occurred during high-flow periods.

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

The overall performance of the Corporation's facilities for the nine months ended September 30, 2011, demonstrates the benefits of geographic diversification and the complementarity of hydroelectric and wind power generation.

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

Operating Results	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
Operating revenues	50,465	25,201	115,126	64,554
Operating expenses	6,769	3,754	16,238	9,834
Share-based compensation	84	186	340	279
General and administrative expenses	2,942	1,097	7,527	4,006
Prospective projects expenses	572	440	1,581	1,202
EBITDA	40,098	19,724	89,440	49,233
Finance costs[1]	13,629	6,587	37,820	16,721
Transaction costs	47	-	1,610	5,330
Realized gain on derivative financial instruments	-	-	-	(555)
Realized loss (gain) on foreign exchange	110	(49)	70	(26)
Loss on contingent considerations	2,711	-	2,711	-
Other net revenues	(338)	(11)	(777)	(10)
Depreciation and amortization	13,781	9,114	36,697	23,759
Unrealized net loss on derivative financial instruments	40,510	20,098	41,883	36,240
Unrealized loss on unitholders' capital	-	-	-	51,761
Expense related to royalty agreement	-	-	-	983
Unrealized net loss (gain) on foreign exchange	74	(12)	27	(8)
Recovery of income taxes	(8,828)	(4,507)	(7,899)	(8,752)
Distributions declared to unitholders	-	-	-	7,238
Net loss	(21,598)	(11,496)	(22,702)	(83,448)
Owners of the parent	(26,162)	(11,590)	(26,665)	(83,487)
Non-controlling interests	4,564	94	3,963	39
	(21,598)	(11,496)	(22,702)	(83,448)

1. For the three and nine-month periods ended September 30, 2011, finance costs include compensation interest of $0.5 million and $5.3 million respectively.

Revenues

In the third quarter of 2011, the Corporation recorded operating revenues of $50.5 million ($25.2 million in 2010). This increase is due mainly to additional revenues resulting from the Cloudworks Acquisition ($21.7 million) and higher revenues from the St-Paulin, Chaudière, Rutherford Creek and Ashlu Creek facilities ($3.5 million).

For the nine-month period ended September 30, 2011, the Corporation recorded gross operating revenues of $115.1 million ($64.6 million in 2010). This performance is due mainly to additional revenues resulting from the Cloudworks Acquisition ($37.8 million), the Combination ($8.7 million) and to higher revenues from the pre-combination assets of the Fund (aggregate positive impact of $3.9 million).

As stipulated in the Baie-des-Sables, L'Anse-à-Valleau and Carleton PPAs, Hydro-Québec is entitled to 75% of the payments received by the three wind farms under the ecoENERGY Initiative. The ecoENERGY Initiative provides for an incentive payment of $10 per MW-hr for the first ten years of operation. Under IFRS, gross payments must be included in the operating revenues; a corresponding adjustment for the 75% transfer to Hydro-Québec has thus been included in operating expenses whereas, under Canadian GAAP, the transfer was netted in operating revenues.

Expenses

Operating expenses consist primarily of the operators' salaries, water rights, royalties, insurance premiums, property taxes, maintenance and repairs. As explained in the preceding paragraph, with the adoption of IFRS, operating expenses now also include Hydro-Québec's share of the payments received under the ecoENERGY Initiative.

In the third quarter of 2011, the Corporation incurred $6.8 million in operating expenses related to the operation of the power-producing facilities ($3.8 million in 2010). This increase was expected and is due mainly to the Cloudworks Acquisition ($2.4 million), which resulted in the Corporation operating a greater number of facilities in 2011 than in 2010. This, in addition to the Combination, also explains the increase in operating expenses for the nine-month period ended September 30, 2011, when the Corporation recorded $16.2 million in operating expenses ($9.8 million in 2010).

Share-based compensation relates to the amortization of the fair value of options granted concurrently with the initial public offering of the Pre-Combination Innergex in December 2007 and of options granted in June 2010. For the three and nine-month periods ended September 30, 2011, non-cash share-based compensation was $0.1 million and $0.3 million respectively ($0.2 million and $0.3 million respectively in 2010). Prior to the Combination, such expenses were not incurred by the Fund.

General and administrative expenses totalled $2.9 million and $7.5 million respectively for the three and nine-month periods ended September 30, 2011 ($1.1 million and $4.0 million respectively in 2010). These increases are due to the Combination and the Cloudworks Acquisition.

Prospective project expenses include the costs incurred for the development of Prospective Projects. Prior to the Combination, such expenses were not incurred by the Fund. Accordingly, prospective projects expenses totalled $0.6 million and $1.6 million for the three and nine-month periods ended September 30, 2011 ($0.4 million and $1.2 million respectively in 2010).

Finance Costs

Finance costs include interest expenses on long-term debt and debentures, compensation interest, amortization of financing fees, amortization of the revaluation of long-term debt, accretion expense on asset retirement obligations and accretion expense on contingent considerations. The long-term debt acquired as part of the Cloudworks Acquisition consists of fixed rate bonds and real return bonds ("RRB"). The total interest expense of a RRB is adjusted for inflation and is composed of two types of interest expense:

i) Indexed interest
The RRB repayment schedule of principal and interest is first calculated based on a zero inflation assumption over the term of the bond. When due, each scheduled repayment of principal and interest is adjusted for inflation by multiplying the repayment by an inflation ratio. This adjusted repayment constitutes the total amount paid to bondholders. This adjusted interest is called indexed interest.

ii) Compensation interest
The total interest expense equals to the premium (or spread) added to the changes in the CPI. The difference between the total interest and the indexed interest is called the compensation interest. When the total amount paid to bondholders is lower than the sum of the principal and total interest expense, the unpaid balance becomes accrued compensation interest.

During the early years of the term, the RRB repayment schedule is designed to fully cover the indexed interest and the principal and to partially cover the compensation interest. This mechanism allows for the deferral of a portion of the inflation-related interest during the early years of the term, thus creating accrued compensation interest. The design of the RRB repayment schedule is such that accrued compensation interests are paid towards the latter years of the term.

The real return bonds' interest expense fluctuates with the CPI but, as the PPAs for the Harrison Operating Facility provide CPI-based revenue increases, the Corporation's risk to CPI fluctuation is limited.

For the third quarter of 2011, finance costs totalled $13.6 million ($6.6 million in 2010). Of this difference, $0.5 million is due to compensation interest and $6.0 million to the increase in long-term debt resulting from the Cloudworks Acquisition.

For the nine-month period ended September 30, 2011, finance costs rose to $37.8 million ($16.7 million in 2010). Of this difference, $5.3 million is due to compensation interest and $11.8 million to the increase in long-term debt resulting from the Cloudworks Acquisition. The remaining difference is due to the issuance of Convertible Debentures and to increases in long-term debt resulting from the Combination.

As at September 30, 2011, 88% of the Corporation's outstanding debt, including Convertible Debentures was fixed or hedged against interest rate movements (100% as at September 30, 2010). The difference is due to drawings on the revolving credit term facility greater than they were during the same period in 2010. As such, the effective all-in interest rate on the Corporation's debt and Convertible Debentures was 6.05% as at that date (5.88% as at September 30, 2010). The increase stems from the swap related to the Ashlu long-term debt that took effect on September 30, 2010 and from the bonds acquired as part of the Cloudworks Acquisition. Please see the "Derivative Financial Instruments and Risk Management" section for more information.

Transaction Costs
Transaction costs include the costs incurred for the Combination and for acquisitions. Under IFRS 3, these costs must be expensed in the period they are incurred whereas, under section 1581 of CICA handbook, they were capitalized. In the third quarter of 2011, transaction costs were not material (nil in 2010).

For the nine-month period ended September 30, 2011, the Corporation incurred transaction costs of $1.6 million as a result of the Cloudworks Acquisition and the acquisition of the Stardale Project. For the corresponding period of 2010, transaction costs of $5.3 million were related to the Combination.

Contingent considerations
For the three and nine-month periods ended September 30, 2011, the loss on contingent considerations totalled $2.7 million (nil in 2010). This new line item stems from the earn-out agreement related to the Cloudworks Acquisition and from adjustments on the Stardale purchase price.

Depreciation and Amortization
For the three and nine-month periods ended September 30, 2011, depreciation and amortization expenses totalled $13.8 million and $36.7 million respectively ($9.1 million and $23.8 million respectively in 2010). The increase is mainly attributable to the greater asset base resulting from the Combination and the Cloudworks Acquisition.

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

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

Derivative Financial Instruments
The Corporation uses derivative financial instruments to manage its exposure to the risk of rising interest rates on its debt financing, thereby protecting the economic value of its projects. Innergex also has derivative financial instruments embedded in some of its PPAs. The Corporation does not use hedge accounting for its derivative financial instruments. It does not own or issue financial instruments for speculative purposes.

For the three and nine-month periods ended September 30, 2011, the Corporation recorded no realized gain on derivative financial instruments (nil and $0.6 million respectively in 2010).

The Corporation recorded a $40.5 million unrealized net loss on derivative financial instruments in the third quarter of 2011 ($20.1 million in 2010) due mainly to the decrease in benchmark interest rates for long-term maturities since the end of the second quarter of 2011. This loss had no cash impact on the Corporation's results.

For the nine-month period ended September 30, 2011, the Corporation recorded a $41.9 million unrealized net loss on derivative financial instruments ($36.2 million in 2010) due mainly to the decrease in benchmark interest rates for long-term maturities since the end of 2010. This loss had no cash impact on the Corporation's results.

Unrealized Loss on Unitholders' Capital
Due to the transition to IFRS, under IAS 32, the unitholders' capital of the Fund was reclassified as a long-term liability, and variations in fair value were recognized in the statements of earnings.

Between January 1, 2010, and March 29, 2010, the fair value of the unitholders’ capital increased by $51.8 million. This variation was reflected as an unrealized loss on unitholders’ capital. The Corporation did not record any such loss for the nine-month period ended September 30, 2011, as the unitholders’ capital was reclassified to share capital in equity at the Combination date.

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

Provision for Income Taxes
In the third quarter of 2011, Innergex recorded no material current income tax (recoveries of $0.3 million in 2010) and deferred recoveries of income tax of $8.9 million ($4.2 million in 2010). For the nine-month period ended September 30, 2011, the Corporation recorded current income tax recoveries of $0.9 million ($1.3 million in 2010), and deferred recoveries of income taxes of $7.0 million ($7.5 million in 2010). Prior to the Combination, the Fund’s income trust structure minimized income tax. As a result of the Combination and the Fund’s conversion to a corporation, Innergex is now taxable, although it can take advantage of the Pre-Combination Innergex’s large pool of tax bases and the resulting substantial available unused capital cost allowance to minimize current income taxes.

Distributions Declared to Unitholders
Due to the transition to IFRS, the unitholders’ capital has been reclassified as a long-term liability for the period between January 1, 2010, and March 29, 2010. Accordingly, the $7.2 million in distributions declared to unitholders during the period up to the Combination on March 29, 2010, are included in the calculation of net earnings instead of being accounted as distributions.

Net Earnings (loss)
In the third quarter of 2011, the Corporation recorded a net loss of $21.6 million (basic and diluted net loss of $0.34 per share). For the corresponding period of 2010, Innergex recorded a net loss of $11.5 million (basic and diluted net loss of $0.19 per share). This unfavourable variation in net loss is attributable mainly to a:

- $7.0 million increase in finance costs;
- $4.7 million increase in depreciation and amortization;
- $20.4 million increase in the unrealized loss on the fair market value of derivative financial instruments; and
- $2.7 million increase of loss on contingent considerations.

These were partly offset by a $20.4 million increase in EBITDA due mainly to the Cloudworks Acquisition and by a $4.3 million net increase in income tax recoveries.

For the nine-month period ended September 30, 2011, the Corporation recorded a net loss of $22.7 million (basic and diluted net loss of $0.41 per share). For the corresponding period of 2010, Innergex recorded a net loss of $83.4 million (basic and diluted net loss of $1.41 per share). This favourable variation in net loss is attributable mainly to a:

- $40.2 million increase in EBITDA due mainly to the Cloudworks Acquisition;
- $3.7 million decrease in transaction costs;
- $51.8 million non-recurring expense recorded in the first quarter of 2010 related to the fair market value of the unitholders’ capital;
- $1.0 million favourable difference in the expense related to royalty agreement; and
- $7.2 million favourable difference in distributions declared to shareholders.

These were partly offset by a:

- $21.1 million increase in finance costs;
- $12.9 million increase in depreciation and amortization;
- $5.6 million increase in unrealized loss on the fair market value of derivative financial instruments;
- $2.7 million increase of loss on contingent considerations; and
- $0.9 million decrease in income tax recoveries.

The basic and diluted per-share figures for the three-month period ended September 30, 2011, are based on a weighted average number of 81,282,460 common shares outstanding. The basic and diluted per-share figures for the nine-month period ended September 30, 2011, are based on a weighted average number of 73,793,499 common shares outstanding. As per IFRS, 1,034,000 stock options were non-dilutive during the periods concerned, as the average market price of the Corporation's common share was below the strike price. The other 808,024 stock options were dilutive as the average market price of the Corporation's common share was above the strike price. However, they were excluded from the computation of per-share figure, as the Corporation recognized a net loss for the three and nine-month periods ended September 30, 2011. Convertible Debentures were non-dilutive as the average market price was below the conversion price. A total of 7,558,684 common shares could potentially be issued upon conversion of the Convertible Debentures.

For the corresponding periods ended September 30, 2010, the basic and diluted per-share figures were based on a weighted average number of 59,532,606 and 54,180,928 common shares outstanding respectively. All stock options were non-dilutive during this period. For 1,034,000 stock options, the average market price of the Corporation's common share was below the strike price. For the other 808,024 stock options, their inclusion would have resulted in a lower loss per common share amount. Convertible Debentures were also non-dilutive, as the average market price was below the conversion price.

As at September 30, 2011, the Corporation had a total of 81,282,460 common shares, 80,500 Convertible Debentures, 3,400,000 Series A Preferred Shares and 1,842,024 stock options outstanding. As at December 31, 2010, it had 59,532,606 common shares, 80,500 Convertible Debentures, 3,400,000 Series A Preferred Shares and 1,842,024 stock options outstanding.

Non-controlling Interests
For the three and nine-month periods ended September 30, 2011, the Corporation allocated income of $4.6 million and $4.0 million respectively to non-controlling interests (income of $0.1 million and not material result respectively in 2010). These non-controlling interests are related to the Harrison Operating Facilities acquired as part of the Cloudworks Acquisition on April 4, 2011, the Fitzsimmons Creek Operating Facility and the Kwoiek Creek Development Project.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities
For the nine-month period ended September 30, 2011, cash flows generated by operating activities totalled $33.6 million ($2.5 million used in 2010). This difference is due primarily to the $40.2 million increase in EBITDA, the $3.7 million decrease in transaction costs and the non-recurrent $9.7 million in distributions paid to unitholders in 2010, partly offset by a $16.2 million increase in interest paid and a $2.3 million increase in the negative variation of non-cash working capital items. The variation in non-cash working capital items stems mainly from the negative impact of a larger increase in accounts receivable ($9.2 million) and in prepaid and others ($2.5 million) due mainly to the Cloudworks Acquisition, partly offset by the positive impact of a lower decrease in accounts payable and accrued liabilities ($9.4 million) attributable mainly to the addition of Cloudworks' accounts payable and an increase in accrued liabilities related to the Stardale Project acquisition. At the time of the Combination, the Pre-Combination Innergex had $88.4 million in cash and cash equivalents that it used partly to pay down accounts payable and accrued liabilities owed by the Pre-Combination Innergex entities.

Cash Flows from Financing Activities
For the nine-month period ended September 30, 2011, cash flows generated by financing activities totalled $252.5 million ($27.2 million used in 2010). This results mainly from a $129.8 million net long-term debt increase ($100.7 million net repayment in 2010), partly offset by an amount of $32.6 million paid in dividends to preferred and common shareholders ($8.8 million in 2010). Net proceeds from issuance of common shares amounted to $155.3 million ($82.3 million in preferred shares in 2010).

Cash Flows from Investing Activities
For the nine-month period ended September 30, 2011, cash flows used by investing activities amounted to $281.2 million (inflows of $58.1 million in 2010). During this period, business acquisitions accounted for a $160.8 million outflow (nil in 2010), additions to property, plant and equipment for a $103.5 million outflow ($19.9 million in 2010), additions to project development costs for a $15.8 million outflow ($7.4 million 2010), additions to intangible assets and other long-term assets for a combined $1.1 million outflow ($0.4 million in 2010), increase in restricted cash and short-term investments for a $11.6 million outflow (nil in 2010) and net funds withdrawn from the reserves for a $6.8 million inflow (net outflows of $1.9 million in 2010). Cash acquired concurrently with the Cloudworks Acquisition accounted for $4.9 million inflow in 2011 whereas the Combination accounted for an $88.4 million inflow in 2010.

Cash and Cash Equivalents
For the nine-month period ended September 30, 2011, the Corporation generated $5.2 million in cash and cash equivalents ($28.4 million in 2010) as a net result of its operating, financing and investing activities.

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

As at September 30, 2011, the Corporation had cash and cash equivalents amounting to $47.3 million ($42.1 million as at December 31, 2010).

Dividends to Preferred Shareholders
On November 9, 2011, the Corporation declared a dividend of $0.3125 per Series A Preferred Share payable on January 16, 2012, to Series A preferred shareholders of record at the close of business on December 30, 2011.

Dividends to Common Shareholders
On November 9, 2011, the Corporation declared a dividend of $0.1450 per common share payable on January 16, 2012, to common shareholders of record at the close of business on December 30, 2011.

USE OF FINANCING PROCEEDS

Use of Financing Proceeds	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$
Proceeds from issuance of long-term debt	156,252	116,820
Proceeds from issuance of share capital	155,321	82,338
Financing proceeds	311,573	199,158
Cash acquired on business acquisitions	4,943	88,394
Business acquisitions	(160,844)	-
Additions to property, plant and equipment	(103,544)	(19,923)
Additions to intangible assets	(415)	(267)
Additions to project developments costs	(15,775)	(7,407)
Additions to other long-term assets	(724)	(96)
Short-term loan to a partner	-	(1,000)
Funds invested in the hydrology reserve funded from long-term debt	-	(2,016)
Refinancing of long-term debt	-	(119,806)
Payment of deferred financing costs	(5,557)	(1,749)
Cancellation of revolving credit facility	-	(12,900)
Long-term debt repayment	(20,870)	(83,111)
Use of financing proceeds	(302,786)	(159,881)
Contribution to working capital	8,787	39,277

In the first nine months of 2011, the Corporation borrowed $156.3 million and issued shares for $155.3 million to pay for the Cloudworks Acquisition and the acquisition of the Stardale Project, for additions to assets and to repay long-term debt. During the corresponding period of 2010, the Corporation refinanced its credit facilities as part of the Combination and used the net cash acquired from the Pre-Combination Innergex to reduce drawings and for additions to assets.

FINANCIAL POSITION

Assets
As at September 30, 2011, the Corporation had $1,975.6 million in total assets ($947.1 million as at December 31, 2010). This increase is accounted for mainly by the following:

- restricted cash and short-term investments, a new line item of $49.3 million, due to the Cloudworks Acquisition;
- accounts receivable increased from $14.7 million to $34.5 million, as explained in the "Working Capital" section below;
- reserve accounts increased from $21.4 million to $43.4 million, due mainly to the Cloudworks Acquisition;
- property, plant and equipment increased from $612.3 million to $1,197.8 million due mainly to the Cloudworks Acquisition;
- intangible assets increased from $210.8 million to $431.2 million due mainly to the Cloudworks Acquisition; and
- project development costs increased from $5.9 million to $130.6 million due mainly to the Cloudworks Acquisition.

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

Working Capital

As at the end of the third quarter of 2011, working capital was positive at $73.2 million with a working capital ratio of 2.08:1.00. As at the end of 2010, working capital was positive at $14.0 million with a working capital ratio of 1.27:1. The Corporation increased the working capital ratio over the last nine months due mainly to the Cloudworks Acquisition.

In view of these ratios, the Corporation considers its current level of working capital to be sufficient to meet its needs. The Corporation can also use its newly increased $350.0 million revolving credit term facility. As at September 30, 2011, US$13.9 million and $117.8 million of this credit facility had been drawn as cash advances and $22.5 million had been used for issuing letters of credit.

Accounts receivable increased from $14.7 million as at December 31, 2010, to $34.5 million as at September 30, 2011, as a result of higher revenues in the third quarter of 2011 compared with the last quarter of 2010 due to seasonal variations and the Cloudworks Acquisition. Accounts receivable are comprised mainly of receivables from public utilities for the sale of electricity.

Accounts payable and accrued liabilities increased from $21.7 million as at December 31, 2010, to $24.4 million as at September 30, 2011. The increase stems mainly from the additions of trades and accruals related to the Cloudworks Acquisition. The remaining trade payables are related to the Carleton, L'Anse-à-Valleau and Baie-des-Sables facilities.

Prepaid and others increased from $4.6 million as at December 31, 2010, to $5.9 million as at September 30, 2011.

Derivative financial instruments included in current liabilities were $8.5 million as at December 31, 2010, and $11.4 million as at September 30, 2011.

$10.2 million of the current portion of long-term debt totalling $15.9 million relates to the L'Anse-à-Valleau, Hydro-Windsor, Glen Miller, Umbata Falls, Carleton, Rutherford Creek, Ashlu Creek and Fitzsimmons Creek credit facilities. The remaining $5.7 million relates to the newly acquired Harrison Operating Facilities.

Reserve Accounts

Reserve Accounts Breakdown	September 30, 2011	December 31, 2010
	$	$
Hydrology/wind power reserve	40,132	16,511
Major maintenance reserve	3,250	4,436
Levelization reserve	-	494
Total	43,382	21,441

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

1) The Hydrology/wind power reserve, which is established at the start of commercial operations of a facility to compensate for the variability of cash flows related to fluctuations in hydrology or wind regime and other unpredictable events. The amounts in this reserve are expected to vary from quarter to quarter according to the seasonality of cash flows. The increase in this reserve since December 31, 2010, is attributable mainly to the Cloudworks Acquisition.

2) The Major maintenance reserve, which is established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity. To maximize the use of funds, the Corporation revaluated the reserve needed, taking into account the required amount in its credit agreements. As this reserve was overfunded, cash was withdrawn, resulting in a decrease since December 31, 2010.

As at December 31, 2010, the Corporation held an additional reserve account:

1) The Levelization reserve, which was established to level the monetary contribution from the Funds' power plants in order to pay distributions to unitholders. As planned, this reserve was extinguished in the first quarter of 2011.

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

Property, Plant and Equipment
Property, plant and equipment are comprised mainly of hydroelectric, wind farm and solar projects that are either in operation or under construction. They are recorded at cost less accumulated depreciation and accumulated impairment losses. They are depreciated using the straight-line method over the lesser of (i) the period for which the Corporation owns the rights to the assets or (ii) a period of 15 to 75 years for hydroelectric facilities or of 15 to 25 years for wind farm facilities or of 20 years for solar farm facilities. As required under IFRS, the Corporation adjusted the accumulated depreciation of property, plant and equipment to reflect the depreciation of significant components based on their respective estimated useful lives. The Corporation had $1,197.8 million in property, plant and equipment as at September 30, 2011, compared with $612.3 million as at December 31, 2010. This increase stems from the Cloudworks Acquisition, the construction of the Montagne-Sèche and Gros-Morne wind farm projects and the construction of the Stardale Project and is partly offset by depreciation and amortization.

Intangible Assets
Intangible assets consist of various PPAs, permits and licences. They also include the extended warranty for the Baie-des-Sables, L'Anse-à-Valleau and Carleton wind farm turbines. The Corporation reported $431.2 million in intangible assets as at September 30, 2011, an increase from the $210.8 million reported as at December 31, 2010. This increase results from the Cloudworks Acquisition and the Stardale Project, partly offset by depreciation and amortization. Intangible assets, excluding $2.2 million related to the wind farms' extended warranty, are amortized using the straight-line method over 11- to 40-year periods that commence when the related project is commissioned or acquired. The wind farms' extended warranty is amortized using the straight-line method over the three-year extended warranty period.

Project Development Costs
Project development costs are the costs to acquire and develop Development Projects that have a PPA and to acquire Prospective Projects. Depending on their nature, these costs are transferred either to property, plant and equipment or to intangible assets once the project reaches the construction phase. As at September 30, 2011, the Corporation had $130.6 million in project development costs ($5.9 million as at December 31, 2010). This increase is due to the Cloudworks Acquisition and to the Development Projects in permit phase.

Goodwill
The Corporation had $8.3 million in goodwill as at September 30, 2011 (idem as at December 31, 2010). Goodwill is tested for impairment annually, or more frequently when there is indication that it may be impaired. No impairment was recognized for the nine-month period ended September 30, 2011.

Accrual for acquisition of long-term assets
The accrual for acquisition of long-term assets consists of long-term debt commitments that have been secured and 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. As at September 30, 2011, the Corporation had $73.4 million in accrual for acquisition of long-term assets (nil as at December 31, 2010).

Long-Term Debt
As at September 30, 2011, long-term debt was $961.5 million ($358.7 million as at December 31, 2010). The increase in long-term debt results from the Cloudworks Acquisition, drawings under the Stardale construction loan and net drawings under the revolving credit term facility, partly offset by scheduled repayments of long-term debt of $9.9 million.

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

Long-Term Debt	September 30, 2011	December 31, 2010
	$	$
Revolving credit term facility (i)		
Prime rate advances renewable until August 2016	20	-
Bankers' acceptances renewable until August 2016	117,780	27,400
LIBOR advances, US$13,900 renewable until August 2016	14,570	13,825
Term loans		
Truck loans, maturing in 2011 and 2012 (ii)	83	-
Glen Miller, floating-rate term loan maturing in 2013 (iii)	13,750	14,500
Carleton, floating-rate term loan maturing in 2013 (iv)	47,436	49,083
Umbata Falls, floating-rate term loan maturing in 2014 (v)	24,004	24,348
Fitzsimmons Creek, floating-rate construction loan (vi)	22,482	22,551
Hydro-Windsor, fixed rate term loan maturing in 2016 (vii)	5,237	5,841
Rutherford Creek, fixed rate term loan maturing in 2024 (viii)	50,000	50,000
Ashlu Creek, floating-rate term loan maturing in 2025 (ix)	103,115	104,406
L'Anse-à-Valleau, floating-rate term loan maturing in 2026 (x)	46,265	47,891
Stardale, floating-rate construction loan (xi)	54,852	-
Kwoiek Creek, fixed rate subordinated term loan (xii)	150	150
Bonds		
Harrison, real return bond maturing in 2049 (xiii)	226,637	-
Harrison, fixed rate bond maturing in 2049 (xiv)	215,570	-
Harrison, real return bond maturing in 2049 (xv)	26,305	-
Deferred financing costs	(6,789)	(1,305)
	961,467	358,690
Current portion of long-term debt	(15,892)	(9,259)
	945,575	349,431

The Corporation had the following long-term debts outstanding as at September 30, 2011:

i) a $350.0 million revolving credit term facility secured by a first-ranking hypothec on Innergex assets and by various security interests granted by some of its subsidiaries. The facility will mature in 2016 and is not amortized. Advances are made in the form of bankers' acceptances ("BA"), prime-rate advances, U.S. base-rate advances, LIBOR advances or letters of credit. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of adjusted consolidated senior debt to adjusted EBITDA. As at September 30, 2011, $132.4 million was due under this facility and $22.5 million was used for the issuance of letters of credit; thus the unused and available portion of the revolving credit term facility totalled $195.1 million. As at September 30, 2011, the all-in interest rate was 5.11% after accounting for the interest rate swaps;

ii) as part of the Cloudworks Acquisition, the Corporation assumed truck loans for a total of $0.1 million. The loans are secured by the trucks and are either interest-free or bear interest at a rate of 0.9%. They will mature in 2011 and 2012;

iii) as part of the Combination, the Corporation assumed a $15.3 million non-recourse term loan maturing in 2013. It is secured by the Glen Miller hydroelectric facility. This loan is amortized at the rate of $250 per quarter. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2011, the all-in interest rate was 5.68% after accounting for the interest rate swaps;

iv) as part of the Combination, the Corporation assumed a $50.9 million non-recourse term loan maturing in 2013. It is secured by the Corporation's 38% interest in the Carleton wind farm. This loan was accounted for at its fair market value of $51.7 million as at March 29, 2010. The loan's quarterly principal payments are based on an 18.5-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2011, the all-in effective interest rate was 4.82% after accounting for the interest rate swap;

v) as part of the Combination, the Corporation assumed a $24.8 million non-recourse term loan (corresponding to the Corporation’s 49% ownership interest in this facility) maturing in 2014. It is secured by the Corporation’s 49% ownership interest in Umbata Falls hydroelectric facility. The loan’s quarterly principal payments are based on a 25-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2011, the all-in interest rate was 5.31% after accounting for the interest rate swap;

vi) as part of the Combination, the Corporation assumed a $17.1 million non-recourse construction loan which was accounted for at its fair market value of $19.6 million as at March 29, 2010. During the second quarter of 2010, an additional $3.0 million was drawn under this construction loan. The loan is secured by the Fitzsimmons Creek hydroelectric facility and matures five years after conversion of the construction loan into a term loan. The loan’s monthly principal payments will begin upon conversion and be based on a 30-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2011, the all-in effective interest rate was 4.75%;

vii) as part of the acquisition of the Hydro-Windsor hydroelectric facility in 2004, the Corporation assumed an $8.3 million non-recourse term loan maturing in 2016. It is secured by the Hydro-Windsor hydroelectric facility. This debt was accounted for at its fair market value of $9.9 million as at April 27, 2004. The loan is repayable by monthly blended payments of principal and interest totalling $105. The loan bears interest at an effective fixed interest rate of 8.25%;

viii) as part of the acquisition of the Rutherford Creek hydroelectric facility in 2005, the Corporation assumed a $50.0 million non-recourse term loan maturing in 2024. It is secured by the Rutherford Creek hydroelectric facility. This debt will be repayable in monthly blended payments of principal and interest totalling $511 starting on July 1, 2012. Until such date, monthly interest-only payments of $286 are made. The loan bears interest at a fixed rate of 6.88%;

ix) as part of the Combination, the Corporation assumed a $100.4 million non-recourse construction loan which was accounted for at its fair market value of $95.6 million as at March 29, 2010. In July 2010, the Corporation made a final draw, bringing the total drawn amount to a fair market value of $105.2 million. Concurrently with this last draw, the construction loan was converted to a term loan maturing in 2025. The loan is secured by the Ashlu Creek hydroelectric facility. The loan’s quarterly principal payments are based on a 25-year amortization period. The loan bears interest at the BA rate or prime-rate plus an applicable credit margin. As at September 30, 2011, the all-in effective interest rate was 6.23% after accounting for the interest rate swaps;

x) as part of the acquisition of a 38% interest in the L’Anse-à-Valleau wind farm in 2007, the Corporation assumed a $54.5 million non-recourse term loan maturing in 2026. It is secured by the Corporation’s 38% interest in the L’Anse-à-Valleau wind farm. The loan’s quarterly principal payments are based on an 18.5-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2011, the all-in interest rate was 5.93% after accounting for the interest rate swap;

xi) a $111.7 million non-recourse construction loan agreement, of which $54.9 million was drawn as at September 30, 2011. The loan is secured by the Stardale Project solar farm and matures 18 years after conversion of the construction loan into a term loan. The loan’s quarterly principal payments will begin upon conversion and be based on an 18-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin. As at September 30, 2011, the all-in effective interest rate was 3.45%;

xii) as part of the Combination, the Corporation assumed a $0.2 million subordinated non-recourse term loan made by the Corporation’s partner to Kwoiek Creek Resources Limited Partnership (“KCRLP”), the owner of the Kwoiek Creek hydroelectric project. As per the project agreements, both partners can participate in the financing of the project, the Corporation up to an amount of $20.0 million and its partner up to an amount of $3.0 million. The loan bears interests at a rate of 20% during the development phase and 14% during the construction and operating phases. The Corporation’s subordinated non-recourse term loan made to KCRLP, which is eliminated in the financial statements consolidation process, amounted to $18 million as at September 30, 2011;

xiii) as part of the Cloudworks Acquisition, the Corporation assumed a $258.7 million senior real return bond maturing in 2049. It is secured by the Harrison Operating Facilities. This bond was accounted for at its fair market value of $223.9 million upon the Cloudworks Acquisition. The bond is repayable by semi-annual blended payments of principal and interest totalling $5,790 before CPI adjustment. On December 1, 2031, the payment amount decreases to $4,481 before CPI adjustment. The bond bears interest at a fixed rate adjusted by an inflation ratio as well as an inflation compensation interest factor. Both inflation adjustments are based on the CPI, not seasonally adjusted. As at September 30, 2011, the all-in effective interest rate was 6.65%;

xiv) as part of the Cloudworks Acquisition, the Corporation assumed a $244.8 million senior fixed bond maturing in 2049. It is secured by the Harrison Operating Facilities. This bond was accounted for at its fair market value of $216.4 million upon the Cloudworks Acquisition. The bond is repayable by semi-annual blended payments of principal and interest totalling $8,072. On December 1, 2031, the payment amount decreases to $6,724. The bond bears interest at an effective fixed interest rate of 6.67%;

xv) as part of the Cloudworks Acquisition, the Corporation assumed a $28.7 million junior real return bond maturing in 2049. It is secured by the Harrison Operating Facilities but is second ranking to the bonds described in xiv) and xv). This bond was accounted for at its fair market value of $25.8 million upon the Cloudworks Acquisition. The bond is repayable by quarterly interest payments of $291 before CPI adjustment. On June 1, 2017, the quarterly payments increase to $389 before CPI adjustment and include principal repayment until maturity. The bond bears interest at a fixed rate adjusted by an inflation ratio as well as an inflation compensation interest factor. Both inflation adjustments are based on the CPI, not seasonally adjusted. As at September 30, 2011, the all-in effective interest rate was 7.65%.

If they are not met, certain financial and non-financial covenants included in the credit agreements, trust indentures or PPAs entered into by various subsidiaries of the Corporation could limit the capacity of these subsidiaries to transfer funds to the Corporation. These restrictions could have a negative impact on the Corporation's ability to meet its obligations. Since the beginning of the 2011 fiscal year, the Corporation and its subsidiaries have met all the financial and non-financial conditions related to their credit agreements, trust indentures and PPAs.

Convertible Debentures

As part of the Combination process, the Corporation issued the Convertible Debentures for a total notional amount of $80.5 million. As at September 30, 2011, the debt portion of the Convertible Debentures was estimated at $79.4 million and the equity portion at $1.3 million ($79.3 million and $1.3 million respectively as at December 31, 2010).

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

Preferred Shares

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

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

Derivative Financial Instruments and Risk Management

The Corporation uses derivative financial instruments to manage its exposure to the risk of increasing interest rates on its debt financing. While derivatives are entered into with major financial institutions rated A- or better by S&P, recent events in Europe may have affected some of the Corporations' counterparties. The Corporation nevertheless considers the risk of illiquidity to be low as current interest rate swap valuation results in amounts treated as liabilities of Innergex due to the counterparties.

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

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

Taken together, the bond forward and swap contracts shown in the following table allow the Corporation to eliminate the risk of interest rate increases on a total of $558.8 million in actual and planned long-term debt. As of September 30, 2011, interest rate swaps related to outstanding debts, combined with the $523.8 million in existing fixed-rate debts and the $79.4 million in Convertible Debentures, means that 88% of outstanding debts are protected from interest rate increases. Derivatives were also executed for planned long-term debt for the Montagne-Sèche, Gros-Morne Phase I wind farm projects, the Kwoiek Creek and Northwest Stave River hydroelectric projects and the Stardale Project.

Contract Notional Amounts	Early termination option	September 30, 2011	December 31, 2010
		$	$
Bond forwards, rates ranging from 2.74% to 2.79%, expiring in March 2012	None	50,000	-
Interest rate swaps, rates ranging from 3.96% to 4.09%, expiring in June 2015	None	15,000	15,000
Interest rate swap, 4.27%, expiring in November 2016	None	3,000	3,000
Interest rate swap, 4.41%, expiring in June 2018	March 2013	30,000	30,000
Interest rate swap, 4.27%, expiring in June 2018	March 2013	52,600	52,600
Interest rate swap, 4.93%, amortized until March 2026	None	46,264	47,890
Interest rate swap, 3.45%, amortized until March 2027	December 2013	46,724	48,315
Interest rate swaps, 3.75%, amortized until June 2030	None	101,996	-
Forward interest rate swaps, 4.31%, amortized until June 2030	June 2016	31,690	31,690
Forward interest rate swaps, 4.33%, amortized until June 2031	August 2016	49,940	49,940
Interest rate swap, 4.11%, amortized until June 2034	None	24,004	24,348
Interest rate swaps, 4.70%, amortized until June 2035	June 2025	107,612	109,067
		558,830	411,850

Derivatives had a net negative value of $71.6 million at the end of the third quarter of 2011 (negative $31.1 million at the end of 2010). This difference is due to a decrease in benchmark interest rates for long-term maturities since the end of 2010 and to a new forward interest rate swap entered into in July 2011 for the Stardale Project.

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

The Corporation has recorded Derivatives using an estimated credit-adjusted mark-to-market valuation that is determined by increasing the swap-based discount rates used to calculate the estimated mark-to-market valuation by an estimated credit spread for the relevant term and counterparty for each Derivative. In the case of Derivatives that Innergex accounts for as assets (i.e. Derivatives for which the counterparties owe Innergex), the credit spread for the bank counterparty was added to the swap-based discount rate to determine the estimated credit-adjusted value whereas, in the case of Derivatives accounted for as liabilities (i.e. Derivatives for which Innergex owes the counterparties), Innergex's credit spread was added to the swap-based discount rate. The estimated credit-adjusted values of the Derivatives are subject to changes in credit spreads of Innergex and its counterparties. The Corporation does not use hedge accounting for its Derivatives.

As at September 30, 2011, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at $9.8 million ($10.9 million as at December 31, 2010). These instruments represent the value attributed to minimum inflation clauses of 3% per year included in these PPAs. The fair market value of the derivative financial instruments related to bond forwards were positive at $0.9 million (nil in 2010).

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

Deferred Income Taxes
The tax impact of temporary differences may result in future tax assets or liabilities. As at September 30, 2011, the Corporation's net deferred tax liability was $117.9 million, compared with a net deferred tax liability of $69.5 million as at December 31, 2010. This increase resulted mainly from the Cloudworks Acquisition and the Stardale Project.

Off-Balance-Sheet Arrangements
As at September 30, 2011, the Corporation had issued letters of credit totalling $25.0 million to meet its obligations under its various PPAs and other agreements. Of this amount, $22.5 million was issued under its revolving credit term facility and the remainder under the projects' non-recourse credit facilities. As at that date, Innergex had also issued a total of $23.4 million in corporate guarantees to support the construction of the Montagne-Sèche and Gros-Morne wind farms and the Stardale Project.

Shareholders' Equity
As at September 30, 2011, the shareholders' equity of the Corporation totalled $612.5 million, including $121.5 million of non-controlling interests, compared with $358.9 million, including $2.6 million of non-controlling interests as at December 31, 2010. The increase in total shareholders' equity stems mainly from the Cloudworks Acquisition and the issuance of common shares done concurrently. The Cloudworks Acquisition also explains the increase in non-controlling interest.

As at November 9, 2011, the Corporation has a total of 81,282,460 common shares, 80,500 Convertible Debentures, 3,400,000 Series A Preferred Shares and 1,842,024 stock options outstanding.

Contractual Obligations

Expected Contractual Obligations as at September 30, 2011

Contractual obligations	Total	Under 1 year	1 to 3 years	4 to 5 years	Over 5 years
	$	$	$	$	$
Long-term debt including convertible debentures	1,115,127	17,227	168,070	169,217	760,613
Interest on long-term debt and convertible debentures	731,352	53,716	108,123	93,046	476,467
Other	16,991	1,236	1,781	1,750	12,224
Purchase (Contractual) obligations[1]	85,503	54,030	9,353	3,047	19,073
Total contractual obligations	1,948,973	126,209	287,327	267,060	1,268,377

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

Contingencies
Cloudworks
The Cloudworks Acquisition provides for the potential payment of additional amounts to the vendors over a period of more than 40 years from April 4, 2011 to the 40th anniversary of the last project under development to achieve commercial operation (or 50 years after April 4, 2011 if this date is earlier). The deferred payments are effectively intended to provide for a potential sharing of the value created if the Harrison Operating Facilities and project under development perform better than the Corporation's expectations.

The maximum aggregate amount of all deferred payments under the Cloudworks Acquisition is limited to a present value amount of $35 million. For the purpose of applying such maximum aggregate payment amount, the amount of any deferred payment made is discounted to its present value amount by applying a mutually agreed upon discount rate per annum. The Corporation has the right, at any time during the five-year period after April 4th, 2011, to extinguish all its obligations to make deferred payments by making a one-time payment of the amount by which the maximum aggregate amount of deferred payments of $35 million exceeds the present value of any deferred payments (discounted to their present value amounts by applying an agreed discount rate per annum) made prior to the exercise of such right by the Corporation.

Stardale
In connection with the Stardale Project acquisition, the corporation agreed to pay contingent considerations based upon future events for a period of three years after April 20, 2011. These contingent considerations provide for a potential sharing of the value created if the Stardale Project benefits from a better return than the Corporation's expectation.

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

ADJUSTED CASH FLOWS FROM OPERATING ACTIVITIES

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

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

Adjusted Cash Flows from Operating Activities	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$
Cash flows from operating activities	33,604	(2,456)
Change in non-cash working capital items	23,684	21,427
Transaction costs	1,610	5,330
Distributions paid to unitholders	-	9,688
Net funds withdrawn from (invested into) the reserve accounts (not funded from long-term debt)	511	(1,908)
Adjusted cash flows from operating activities	59,409	32,081

For the nine-month period ended September 30, 2011, Innergex generated $59.4 million in adjusted cash flows from operating activities ($32.1 million in 2010). This improvement is due mainly to a $40.2 million increase in EBITDA and a decrease of $1.9 million in taxes paid, partly offset by an increase of $16.2 million in interest paid.

DIVIDENDS

Dividends	Three-month period ended Sept. 30, 2011	Three-month period ended Sept. 30, 2010	Nine-month period ended Sept. 30, 2011	Nine-month period ended Sept. 30, 2010
	$	$	$	$
Dividends declared on Series A Preferred Shares	1,063	-	3,188	-
Dividends declared on common shares	11,786	8,632	32,204	24,691
Dividends declared on common shares ($ per share)	0.145	0.145	0.435	0.462

During the three and nine-month periods ended September 30, 2011, the Corporation declared dividends of $1.1 million and $3.2 million respectively on its Series A Preferred Shares (nil in 2010) and $11.8 million and $32.2 million on its common shares or $0.145 and $0.435 per common share respectively ($8.6 million and $24.7 million or $0.145 and $0.462 per common share respectively in 2010).

SEGMENT INFORMATION

Geographic Segments

As at September 30, 2011, the Corporation had 19 hydroelectric facilities and three wind farms in Canada and one hydroelectric facility in the United States. For the three and nine-month periods ended September 30, 2011, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled $1.4 million and $2.5 million respectively ($1.3 million and $2.4 million respectively in 2010), representing contributions of 2.7% and 2.2% respectively (5.1% and 3.7% respectively in 2010) to the Corporation's consolidated operating revenues for these periods.

Reportable Segments

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

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

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

The accounting policies for these segments are the same as those described in the "Significant Accounting Policies" section of the Corporation's unaudited condensed consolidated financial statements for the third quarter of 2011. The Corporation evaluates performance based on EBITDA and accounts for inter-segment and management sales at cost. Any transfers of assets from the site development segment to the hydroelectric or wind power generation segments are accounted for at cost.

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

There was no site development segment prior to the Combination on March 29, 2010, as the Fund was solely an operator.

Reportable Segments	**Hydroelectric Generation**	**Wind Power Generation**	**Site Development**	**Total**
	$	**$**	**$**	**$**
Three-month period ended Sept. 30, 2011				
Power generated (MWh)	602,978	63,031	-	666,009
Operating revenues from external clients	44,959	5,506	-	50,465
Expenses:				
Operating expenses	5,544	1,225	-	6,769
Share-based compensation	33	14	37	84
General and administrative expenses	1,063	481	1,398	2,942
Prospective projects expenses	-	-	572	572
Earnings before interest, income taxes, depreciation and amortization and other items	38,319	3,786	(2,007)	40,098
Three-month period ended Sept 30, 2010				
Power generated (MWh)	291,296	64,966	-	356,262
Operating revenues from external clients	19,547	5,654	-	25,201
Expenses:				
Operating expenses	2,618	1,136	-	3,754
Share-based compensation	62	47	77	186
General and administrative expenses	501	266	330	1,097
Prospective projects expenses	-	-	440	440
Earnings before interest, income taxes, depreciation and amortization and other items	16,366	4,205	(847)	19,724

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

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	$	$	$	$
Nine-month period ended Sept. 30, 2011				
Power generated (MWh)	1,261,637	239,869	-	1,501,506
Operating revenues from external clients	94,182	20,944	-	115,126
Expenses:				
Operating expenses	12,442	3,796	-	16,238
Share-based compensation	146	65	129	340
General and administrative expenses	3,014	1,386	3,127	7,527
Prospective projects expenses	-	-	1,581	1,581
Earnings before interest, income taxes, depreciation and amortization and other items	78,580	15,697	(4,837)	89,440
Nine-month period ended Sept. 30, 2010				
Power generated (MWh)	687,866	195,815	-	883,681
Operating revenues from external clients	47,560	16,994	-	64,554
Expenses:				
Operating expenses	6,610	3,224	-	9,834
Share-based compensation	107	64	108	279
General and administrative expenses	1,931	961	1,114	4,006
Prospective projects expenses	-	-	1,202	1,202
Earnings before interest, income taxes, depreciation and amortization and other items	38,912	12,745	(2,424)	49,233
As at September 30, 2011				
Goodwill	8,269	-	-	8,269
Total assets	1,323,029	244,436	408,139	1,975,604
Acquisition of property, plant and equipment since the beginning of the year	437,725	388	169,285	607,398
As at December 31, 2010				
Goodwill	8,269	-	-	8,269
Total assets	600,007	264,449	82,684	947,140
Acquisition of property, plant and equipment during the year	1,304	318	37,224	38,846

Hydroelectric Generation Segment
For the three-month period ended September 30, 2011, the hydroelectric generation segment produced 34% more power than the long-term average due to better-than-anticipated water flows at most of the segment's facilities, resulting in operating revenues of $45.0 million. In the corresponding period of 2010, production was below the long-term average by 3% due to lower-than-anticipated water flows at some of the segment's facilities, resulting in gross operating revenues of $19.5 million.

For the nine-month period ended September 30, 2011, the hydroelectric generation segment produced 8% more power than the long-term average due to better-than-anticipated water flows at some of the segment's facilities, resulting in operating revenues of $94.2 million. In the corresponding period of 2010, production was below the long-term average by 6% due to lower-than-anticipated water flows at some of the segment's facilities, resulting in gross operating revenues of $47.6 million.

The contribution from the Harrison Operating Facilities is included as of April 5, 2011. For the three and nine-month periods ended September 30, 2011, these facilities contributed $21.7 million and $37.8 million respectively to operating revenues.

The increase in total assets since December 31, 2010, is attributable to the Cloudworks Acquisition, partially offset by depreciation, amortization of property, plant and equipment as well as intangible assets.

Wind Power Generation Segment
For the three-month period ended September 30, 2011, the wind power generation segment produced 6% more power than the long-term average due mainly to better-than-anticipated wind regime at the L'Anse-à-Valleau wind farm, resulting in operating revenues of $5.5 million. In the corresponding period of 2010, production was above the long-term average by 10% due mainly to better-than-anticipated wind regimes at the Baie-des-Sables and L'Anse-à-Valleau wind farms, resulting in gross operating revenues of $5.7 million.

For the nine-month period ended September 30, 2011, the wind power generation segment produced 3% less power than the long-term average due to lower-than-anticipated wind regime at the Baie-des-Sables and Carleton wind farms, resulting in operating revenues of $20.9 million. In the corresponding period of 2010, production was below the long-term average by 7% due to lower-than-anticipated wind regimes at the Baie-des-Sables and L'Anse-à-Valleau wind farms, resulting in gross operating revenues of $17.0 million.

As a result of the Combination, the contribution of the Carleton wind farm has been included in the results since March 30, 2010. The addition of Carleton accounts for $3.1 million of the $3.7 million increase in operating revenues for the nine-month period ended September 30, 2011, compared with the same period in 2010. The remaining difference is attributable to better performance from L'Anse-à-Valleau and Baie-des-Sables facilities for the corresponding period.

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

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

The increase in total assets since December 31, 2010, results mainly from the Cloudworks Acquisition, the construction of the Montagne-Sèche and Gros-Morne wind farm projects and the construction of the Stardale Project.

RELATED PARTY TRANSACTIONS

As Manager of the Innergex Power Income Fund
Prior to the Combination, the Corporation provided services to the Fund and its subsidiaries under three agreements: the Management Agreement; the Administration Agreement; and the Services Agreement. The three agreements were terminated upon the closing of the Combination. As a result, amounts were paid only during the first quarter of 2010. During that quarter, the Fund paid $0.6 million for services provided under these three agreements.

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

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

The total purchase price amounted to $195.2 million and was accounted for under IFRS 3. The fair value of the consideration transferred is based on the number of Fund units that would have had to be issued in order to provide the same percentage of ownership of the combined entity to the Fund's unitholders. The purchase price allocation is presented in Note 6 of the Corporation's unaudited condensed consolidated financial statements for the third quarter of 2011.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. During the reporting period, management made a number of estimates and assumptions pertaining primarily to the fair value calculation of the assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives and recoverability of property, plant and equipment and intangible assets, deferred income taxes as well as the fair value of financial assets and liabilities, including derivatives. These estimates and assumptions are based on current conditions, management's planned course of action and assumptions about future business and economic conditions. Changes in the underlying assumptions and estimates could have a material impact on the reported amounts. These estimates are reviewed periodically. If adjustments prove necessary, they are recognized as earnings in the period in which they are made. Other significant accounting policies are listed in Note 3 of the Corporation's unaudited condensed consolidated financial statements for the third quarter of 2011.

ACCOUNTING CHANGES

FUTURE CHANGES

IAS 1 – Presentation of Items of Others Comprehensive Income

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income between those that are reclassed to income and those that do not. The standard is required to be adopted for periods beginning on or after July 1, 2012. The Corporation is evaluating the impact that this standard may have on its results of operations and financial position.

IFRS 9 – Financial instrument

The standard will be effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

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

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

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

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

IFRS 10 – Consolidated Financial Statement

In May 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. The Corporation is evaluating the impact that this standard may have on its results of operations and financial position.

IFRS 11 – Joint Arrangements

IFRS 11 – Investments in Joint Ventures has been under review by the IASB and the new standard IFRS 11 – Joint Arrangements was published on May 12, 2011. The effective implementation date for the revised standard is January 1, 2013. IFRS 11 will require investments in joint ventures to be accounted for using the equity method. This will result in significant changes in the presentation of the statements of financial position and the statements of earnings. Net earnings/loss and net assets are not expected to differ as a result of applying the equity method of accounting. However, the balances of each line item on the statements of financial position and the statements of earnings are expected to change significantly.

Several investments in associates and joint ventures are consolidated in Innergex under IFRS. These investments are either, fully consolidated or proportionally consolidated. Under the IFRS 11 revised standard, some of these investments might have to be accounted for as investments on the statements of financial position with their results recognized as share of net earnings of an entity subject to significant influence. The Corporation has not completed its review of the new IFRS 11 standard.

IFRS 12 – Disclosure of Interests in Other Entities
In May 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. The Corporation is evaluating the impact that this standard may have on its results of operations and financial position.

IFRS 13 – Fair Value Measurement
In May 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. The Corporation is evaluating the impact that this standard may have on its results of operations and financial position.

CHANGES MADE IN 2011

IFRS Transition

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

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

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

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

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

The Corporation applied the following exemptions from other standards:

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

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

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

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

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

Revenues

The Corporation is entitled to subsidies under the ecoENERGY Initiative. The subsidies are equal to $10 per MWh produced at various facilities. As per the PPAs, the Corporation must transfer 75% of the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms ecoENERGY payments to Hydro-Québec.

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

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

Accretion Expense on Asset Retirement Obligation

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

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

Share-based Compensation

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

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

Transaction Costs

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

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

Depreciation

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

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

Amortization

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

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

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

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

Unrealized Loss on Unitholders' Capital

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

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

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

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

Adjustments made to the carrying values of property, plant and equipment, intangible assets, asset retirement obligations, long-term debt and convertible debentures have an impact on deferred taxes as well.

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

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

RISKS AND UNCERTAINTIES

The Corporation is exposed to various business risks and uncertainties and has outlined those it considers material in its 2010 Annual Report. Additional risks and uncertainties are discussed in the "Risk Factors" section of the Corporation's Annual Information Form for the year ended December 31, 2010. However, additional risks and uncertainties that are not presently known to the Corporation or that are currently believed to be immaterial may adversely affect the Corporation's business.

ADDITIONAL INFORMATION AND UPDATES

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

QUARTERLY FINANCIAL INFORMATION

Financial Information (unaudited) for the Three-Month Periods Ended: (in millions of dollars, unless otherwise stated)	Sept. 30, 2011[1]	June 30, 2011[1]	Mar. 31, 2011[1]	Dec. 31, 2010[1]
Power generated (MWh)	666,009	595,317	240,180	343,754
Operating revenues	50.5	43.8	20.8	26.8
EBITDA	40.1	34.6	14.7	19.0
Net earnings (loss)	(21.6)	(6.8)	5.7	14.9
Net earnings (loss) ($ per share – basic and diluted)	(0.34)	(0.09)	0.08	(0.25)
Adjusted net earnings (loss)	8.0	1.1	(1.2)	3.5
Adjusted net earnings (loss) ($ per share – basic and diluted)	0.10	0.01	(0.04)	0.06
Dividends declared on Series A Preferred Shares	1.1	1.1	1.1	1.5
Dividends declared on common shares	11.8	11.8	8.6	8.6
Dividends declared on common shares ($ per share)	0.145	0.145	0.145	0.145

1. Prepared in accordance with IFRS.

Financial Information (unaudited) for the Three-Month Periods Ended: (in millions of dollars, unless otherwise stated)	Sept. 30, 2010[1]	June 30, 2010[1]	Mar. 31, 2010[1]	Dec. 31, 2009[2]
Power generated (MWh)	356,262	369,753	157,666	189,011
Operating revenues	25.2	25.4	14.0	13.2
EBITDA	19.7	18.8	10.7	10.2
Net (loss) earnings	(11.5)	(7.0)	(64.9)	7.0
Net (loss) earnings ($ per share – basic and diluted)	(0.19)	(0.12)	(1.33)	0.16
Adjusted net earnings (loss)	3.2	3.3	(11.0)	7.0
Adjusted net earnings (loss) ($ per share – basic and diluted)	0.05	0.06	(0.25)	0.16
Dividends declared on Series A Preferred Shares	-	-	-	-
Dividends declared on common shares	8.6	8.8	7.2	7.4
Dividends declared on common shares ($ per share)	0.145	0.148	0.169	0.171

1. Prepared in accordance with IFRS.
2. Prepared in accordance with Canadian GAAP.

Comparing the results for the most recent quarters makes apparent the seasonality that is characteristic of the Corporation's assets, i.e. that power generated, gross operating revenues and EBITDA vary from quarter to quarter. As the Corporation's total average long-term production is 82% hydroelectric, this seasonality can be explained by water flows that are normally at their highest in the second quarter due to the snow melt season and at their lowest in the first quarter due to the cold temperatures, which limit precipitation in the form of rain. However, premiums for the electricity generated during the coldest months of the year included in some PPAs of the Corporation's hydroelectric facilities attenuate this seasonality. The production of the wind farms also partially compensates for this seasonality experienced by hydroelectric facilities, as wind regimes are generally best in the first quarter of a typical year.

By excluding non-recurring items, readers would expect that the net earnings and net earnings per share reflect this seasonality characteristic of run-of-river hydroelectric plants and of wind farms. However, other factors also influence net earnings and net earnings per share, some of which have a relatively stable quarter-to-quarter impact while others are more variable. For the Corporation, the factor that causes the largest fluctuations in net earnings and net earnings per share is change in the market value of derivative financial instruments. As a result of the transition to IFRS, another factor impacting only the first quarter of 2010 is the $51.8 million unrealized loss on unitholders' capital. Historical analysis of net earnings and net earnings per share should therefore take these factors into account. It is important to bear in mind that changes in the market value of derivative financial instruments result from interest rate and inflation rate fluctuations and do not have an impact on the Corporation's EBITDA and finance costs.

SUBSEQUENT EVENT

Bond forward transactions

After the end of the third quarter of 2011, the Corporation entered into additional $66.5 million bond forward transactions to secure the interest rate on planned debt for Development Projects under permit phase. As at November 9, 2011, Innergex had $116.5 million of outstanding bond forwards expiring in March 2012 at a weighted average rate of 2.78%.

INFORMATION FOR INVESTORS

Stock Exchange Listing

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

Rating Agencies

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

Transfer Agent and Registrar

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Email: service@computershare.com

Auditors

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

Electronic Delivery

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

Investor Relations

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

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