

INNERGEX

Renewable Energy.
Sustainable Development.



QUARTERLY REPORT 2011

**FOR THE PERIOD
ENDED JUNE 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)

		Three-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	Notes	\$	\$	\$	\$
Revenues			(Note 1.2.1)		(Note 1.2.1)
Operating		43,845	25,355	64,661	39,353
Expenses					
Operating		5,682	3,791	9,469	6,080
Share-based compensation		126	92	256	93
General and administrative		2,717	1,940	4,585	2,909
		8,525	5,823	14,310	9,082
Earnings from operations		35,320	19,532	50,351	30,271
Prospective projects expenses		702	752	1,009	762
Earnings before interests, income taxes, depreciation and amortization and other items		34,618	18,780	49,342	29,509
Finance costs	15	17,463	6,227	24,191	10,134
Transaction costs		452	-	1,563	5,330
Realized gain on derivative financial instruments		-	(555)	-	(555)
Other net (revenues) expenses		(317)	85	(479)	24
Earnings before income taxes, depreciation and amortization and other items		17,020	13,023	24,067	14,576
Depreciation		8,378	5,399	13,781	8,511
Amortization		5,273	3,705	9,135	6,134
Unrealized net loss on derivative financial instruments		10,907	14,102	1,373	16,142
Unrealized loss on unitholders' capital		-	-	-	51,761
Expense related to royalty agreement upon share exchange arrangement	6	-	-	-	983
Unrealized net (gain) loss on foreign exchange		(6)	49	(47)	4
Loss before income taxes and distributions		(7,532)	(10,232)	(175)	(68,959)
(Recovery) provision for income taxes					
Current		97	(915)	(991)	(1,022)
Deferred		(795)	(2,278)	1,920	(3,223)
		(698)	(3,193)	929	(4,245)
Net loss before distributions declared to unitholders		(6,834)	(7,039)	(1,104)	(64,714)
Distributions declared to unitholders		-	-	-	7,238
Net loss		(6,834)	(7,039)	(1,104)	(71,952)
Net loss attributable to:					
Owners of the parent		(6,478)	(6,990)	(503)	(71,897)
Non-controlling interests		(356)	(49)	(601)	(55)
		(6,834)	(7,039)	(1,104)	(71,952)
Weighted average number of common shares outstanding (in 000)	10	80,326	59,533	69,987	51,461
Basic net loss per share	10	(0.09)	(0.12)	(0.04)	(1.26)
Diluted number of common shares outstanding (in 000)	10	80,406	59,533	70,062	51,461
Diluted net loss per share	10	(0.09)	(0.12)	(0.04)	(1.26)

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 June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$	\$	\$
		(Note 1.2.1)		(Note 1.2.1)
Net loss	(6,834)	(7,039)	(1,104)	(71,952)
Other comprehensive income (loss)				
Unrealized foreign exchange (loss) gain on translation of a self-sustaining foreign subsidiary (nil income tax)	(18)	190	(103)	58
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 (nil income tax)	19	(193)	104	(62)
	1	(3)	1	(4)
Comprehensive loss	(6,833)	(7,042)	(1,103)	(71,956)
Total comprehensive loss attributable to:				
Owners of the parent	(6,477)	(6,993)	(502)	(71,901)
Non-controlling interests	(356)	(49)	(601)	(55)
	(6,833)	(7,042)	(1,103)	(71,956)

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)

		June 30, 2011	December 31, 2010
	Notes	\$	\$
Assets			
Current assets			
Cash and cash equivalents		43,049	42,116
Restricted cash and short-term investments		36,787	-
Accounts receivable		31,160	14,685
Current portion of reserve accounts		-	494
Income tax receivable		2,469	2,200
Current portion of derivative financial instruments		1,647	1,679
Prepaid and others		5,649	4,648
		120,761	65,822
Reserve accounts		50,033	20,947
Property, plant and equipment	7	1,081,645	612,310
Intangible assets		436,373	210,838
Project development costs		117,775	5,908
Derivative financial instruments		8,828	9,534
Deferred tax assets		10,323	13,178
Goodwill		8,269	8,269
Other long-term assets		4,462	334
		1,838,469	947,140
Liabilities			
Current liabilities			
Dividends payable to shareholders		12,848	10,064
Accounts payable and accrued liabilities		24,859	21,746
Current portion of derivative financial instruments		9,641	8,543
Current portion of long-term debt		15,050	9,259
Income tax liabilities		2,018	2,164
		64,416	51,776
Construction holdbacks		347	76
Derivative financial instruments		22,132	22,597
Accrual for acquisition of long-term assets		29,479	-
Long-term debt		852,755	349,431
Asset retirement obligations		2,442	2,384
Deferred tax liabilities		137,565	82,641
Liability portion of convertible debentures		79,411	79,334
Contingent consideration		2,998	-
		1,191,545	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		1,184	928
Equity portion of convertibles debentures		1,340	1,340
Deficit		(211,471)	(188,295)
Accumulated other comprehensive income		239	238
Equity attributable to owners		529,969	356,313
Non-controlling interests		116,955	2,588
Total shareholders' equity		646,924	358,901
		1,838,469	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)

Six-month period ended June 30, 2011											
	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
	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							(503)		(503)	(601)	(1,104)
Other items of comprehensive loss								1	1	-	1
Comprehensive loss							(503)	1	(502)	(601)	(1,103)
Share-based compensation					256				256	-	256
Dividends declared on common shares							(20,418)		(20,418)	-	(20,418)
Dividends declared on Series A preferred shares (including \$130 of income taxes)							(2,255)		(2,255)	-	(2,255)
Balance June 30, 2011	81,282	1	82,589	656,087	1,184	1,340	(211,471)	239	529,969	116,955	646,924

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)

	Six-month period ended June 30, 2010									
	Number of common shares/ units	Common share/unit capital account	Contributed surplus from reduction of capital on common shares	Share-based compensation	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					-		-
Net loss						(71,897)		(71,897)	(55)	(71,952)
Other items of comprehensive loss							(4)	(4)		(4)
Comprehensive loss						(71,897)	(4)	(71,901)	(55)	(71,956)
Share-based compensation				93				93		93
Dividends declared on common shares						(8,821)		(8,821)		(8,821)
Balance June 30, 2010	59,533	5,720	453,793	590	1,340	(172,861)	69	288,651	2,601	291,252

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)

		Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	Notes	\$	\$
Operating activities			
Net loss		(1,104)	(71,952)
Items not affecting cash:			
Depreciation of property, plant and equipment		13,781	8,511
Amortization of intangible assets		9,135	6,134
Amortization of financing fees	15	103	632
Accretion expense on asset retirement obligations	15	58	251
Share-based compensation		256	93
Compensation interest	15	4,765	-
Unrealized net loss on derivative financial instruments		1,373	16,142
Unrealized loss on unitholders' capital		-	51,761
Deferred tax provision (recovery)		1,920	(3,223)
Unrealized net (gain) loss on foreign exchange		(47)	4
Amortization of reevaluation of long-term debt and convertible debenture	15	347	(37)
Expense related to royalty agreement upon share exchange arrangement	6	-	983
Effect of exchange rate fluctuations		(33)	29
Interest on long-term debt and convertible debentures	15	18,918	9,288
Interest paid		(17,343)	(8,579)
Distributions declared to unitholders		-	7,238
Distributions paid to unitholders		-	(9,688)
Current income taxes recovery		(991)	(1,022)
Income taxes paid		(209)	(2,109)
		30,929	4,456
Changes in non-cash operating working capital items	12	(12,115)	(20,650)
		18,814	(16,194)
Financing activities			
Dividends paid on common units		(17,264)	-
Dividends paid on Series A preferred shares		(2,495)	-
Increase of long-term debt		56,000	90,720
Repayment of bank loan		-	(12,900)
Repayment of long-term debt		(17,924)	(121,238)
Payment of deferred financing costs		(88)	(1,714)
Issuance of share capital	5	155,321	-
		173,550	(45,132)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

	Notes	Six-month period ended June 30, 2011 \$	Six-month period ended June 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		(24,017)	(1,815)
Additions to intangible assets		(302)	(68)
Additions to project development costs		(11,375)	(6,457)
Additions to other long-term assets		(642)	(78)
Decrease of restricted cash and short-term investments		906	-
Net funds withdrawn from the levelization reserve		494	205
Net funds invested into the wind/hydro reserve		(560)	(1,774)
Net funds withdrawn from the major maintenance reserve accounts		2	4
		(191,395)	78,411
Effects of exchange rate changes on cash and cash equivalents		(36)	(25)
Net increase in cash and cash equivalents		933	17,060
Cash and cash equivalents, beginning of period		42,116	9,352
Cash and cash equivalents, end of period		43,049	26,412
<i>Cash and cash equivalents is comprised of:</i>			
Cash		12,017	8,850
Short-term investments		31,032	17,562
		43,049	26,412

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 August 10, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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 June 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 the six-month periods ended June 30, 2010 (Note 1.2.1)
- Shareholders' equity as at June 30, 2010 (Note 1.2.2)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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 six-month periods ended June 30, 2010

Condensed consolidated statements of earnings	Three-month period ended June 30, 2010			
	Canadian GAAP	IFRS transition effect		IFRS
	\$	Notes	\$	\$
Revenues				
Operating	24,824	a)	531	25,355
Expenses				
Operating	3,290	a)	531	
Share-based compensation	75	b)	(30)	3,791
General and administrative	1,940	c)	17	92
	5,305		518	5,823
Earnings from operations	19,519		13	19,532
Prospective projects expenses	752			752
Earnings before interests, income taxes, depreciation and amortization and other items	18,767		13	18,780
Finance costs	6,129	b)	98	6,227
Transaction costs	-		-	-
Realized gain on derivative financial instruments	(555)			(555)
Other net expenses	85			85
Earnings before income taxes, depreciation and amortization and other items	13,108		(85)	13,023
Depreciation	5,114	e)	285	5,399
Amortization	3,415	f)	290	3,705
Unrealized net loss on derivative financial instruments	14,102			14,102
Unrealized net loss on foreign exchange	44	h)	5	49
Loss before income taxes	(9,567)		(665)	(10,232)
Recovery of income taxes				
Current	(915)			(915)
Deferred	(2,128)	i)	(150)	(2,278)
	(3,043)		(150)	(3,193)
Net loss	(6,524)		(515)	(7,039)
Net loss attributable to:				
Owners of the parent	(6,524)		(466)	(6,990)
Non-controlling interests	-		(49)	(49)
	(6,524)		(515)	(7,039)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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 six-month periods ended June 30, 2010 (continued)

Condensed consolidated statements of Comprehensive income	Three-month period ended June 30, 2010			
	Canadian GAAP	IFRS transition effect	IFRS	
	\$	Notes	\$	\$
Net loss	(6,524)		(515)	(7,039)
Other items of comprehensive loss				
Unrealized foreign exchange gain on translation of a self-sustaining foreign subsidiary (net of nil income tax)	195	k)	(5)	190
Unrealized foreign exchange loss on the designated portion of the US\$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary (net of nil income tax)	(198)	k)	5	(193)
	(3)		-	(3)
Comprehensive loss	(6,527)		(515)	(7,042)
Total comprehensive loss attributable to:				
Owners of the parent	(6,527)		(466)	(6,993)
Non-controlling interests	-		(49)	(49)
	(6,527)		(515)	(7,042)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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 six-month periods ended June 30, 2010 (continued)

Condensed consolidated statements of earnings	Six-month period ended June 30, 2010			
	Canadian GAAP	IFRS transition effect		IFRS
	\$	Notes	\$	\$
Revenues				
Operating	38,375	a)	978	39,353
Expenses				
Operating	5,152	a)	978	
Share-based compensation	77	b)	(50)	6,080
General and administrative	2,909	c)	16	93
	8,138		944	9,082
Earnings from operations	30,237		34	30,271
Prospective projects expenses	762			762
Earnings before interests, income taxes, depreciation and amortization and other items	29,475		34	29,509
Finance costs	9,883	b)	251	10,134
Transaction costs	-	d)	5,330	5,330
Realized gain on derivative financial instruments	(555)			(555)
Other net expenses	24			24
Earnings before income taxes, depreciation and amortization and other items	20,123		(5,547)	14,576
Depreciation	8,050	e)	461	8,511
Amortization	6,016	f)	118	6,134
Unrealized net loss on derivative financial instruments	16,142			16,142
Unrealized loss on unitholders' capital	-	g)	51,761	51,761
Expense related to royalty agreement upon share exchange arrangement	983			983
Unrealized net loss on foreign exchange	2	h)	2	4
Loss before income taxes and distributions	(11,070)		(57,889)	(68,959)
Recovery of income taxes				
Current	(1,022)			(1,022)
Deferred	(3,025)	i)	(198)	(3,223)
	(4,047)		(198)	(4,245)
Net loss before distributions declared to unitholders	(7,023)		(57,691)	(64,714)
Distributions declared to unitholders	-	j)	7,238	7,238
Net loss	(7,023)		(64,929)	(71,952)
Net loss attributable to:				
Owners of the parent	(7,023)		(64,874)	(71,897)
Non-controlling interests	-		(55)	(55)
	(7,023)		(64,929)	(71,952)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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 six-month periods ended June 30, 2010 (continued)

Condensed consolidated statements of comprehensive income	Six-month period ended June 30, 2010			
	Canadian GAAP	IFRS transition effect		IFRS
	\$	Notes	\$	\$
Net loss	(7,023)		(64,929)	(71,952)
Other items of comprehensive loss				
Unrealized foreign exchange gain on translation of a self-sustaining foreign subsidiary (net of nil income tax)	60	k)	(2)	58
Unrealized foreign exchange loss on the designated portion of the US\$ denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary (net of nil income tax)	(64)	k)	2	(62)
	(4)		-	(4)
Comprehensive loss	(7,027)		(64,929)	(71,956)
Total comprehensive loss attributable to:				
Owners of the parent	(7,027)		(64,874)	(71,901)
Non-controlling interests	-		(55)	(55)
	(7,027)		(64,929)	(71,956)

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 \$531 and \$978 for the three-month and six-month periods ending June 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 June 30, 2010, this resulted in an increase of \$68 of Accretion expense on asset retirement obligation for a total expense of \$98. The \$30 Accretion expense on asset retirement obligation accounted for under Canadian GAAP was reclassified from the Operating expenses to the Finance costs. For the six-month period ending June 30, 2010, it resulted in an increase of \$201 of Accretion expense on asset retirement obligation for a total expense of \$251. The \$50 Accretion expense on asset retirement obligation accounted for under Canadian GAAP was reclassified from the Operating expenses to the Finance costs.

c) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. This resulted in a respective increase of \$17 and \$16 for the three-month and six-month periods ending June 30, 2010 of the Share-based compensation expense.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1.2.1 Reconciliation of statement of earnings and comprehensive income for the three-month and six-month periods ended June 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 six-month period ending June 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 \$285 and \$461 for the three-month and six-month periods ending June 30, 2010.

f) Amortization

The Corporation performed an impairment test on January 1, 2010 and, accordingly, the carrying amounts of intangibles were impaired. This resulted in a respective lower amortization expense of \$172 and \$344 for the three-month and six-month periods ending June 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. The amortization expense was increase by \$462.

Those two elements resulted in a respective net entry in the amortization expense of \$290 and \$118 for the three-month and six-month periods ending June 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 \$5 and \$2 for the three-month and six-month periods ending June 30, 2010.

i) Deferred tax expense

Adjustments made to elements identified in the consolidated statement of earnings explain the respective increase in deferred tax income of \$150 and \$198 for the three-month and six-month periods ended June 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 six-month period ending June 30, 2010, instead of being accounted as distributions.

k) Comprehensive loss

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Shareholders' equity	Canadian GAAP	IFRS transition effect Notes	IFRS
	\$		\$
Common share capital	1	c)	5,719
Contributed surplus from reduction of capital on common shares	420,627	b) c)	12,615 20,551
Share-based compensation	574	i)	16
Equity portion of convertible debentures	1,841	j)	(501)
Total deficit	(143,356)	a) b) d) e) f) g) h) i) k)	55 (12,615) (2,499) (409) (12,184) (6,000) 4,165 (16) (2)
Total cumulative other comprehensive income	67	d) k)	1 1
Equity attributable to shareholders	279,754		8,897
Non-controlling interests	-	a)	2,601
Total shareholders' equity	279,754		11,498
			288,651
			2,601
			291,252

a) Non-controlling interests

Under IFRS 3, for each business combination, at the acquisition date, the acquirer is required to measure components of non-controlling interests in the acquiree that have an ownership interest and entitle their holders to a proportionate share of the entity's net assets at fair value. Therefore, the Corporation recognized an amount of \$2,656 as non-controlling interests in the share exchange arrangement. For the six-month period ending June 30, 2010, a loss of \$55 was allocated to the non-controlling interest. The net adjustment to the non-controlling interests is \$2,601.

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) 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.

d) 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 \$2,498 resulting in a lower book value with corresponding entries in the total deficit (\$2,499) and the total cumulative other comprehensive income (\$1).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

e) 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 \$409.

f) Intangible assets

On January 1, 2010, the Corporation performed an impairment test and, accordingly, the carrying amount of intangible assets was impaired by an amount of \$12,066. The impact of the impairment test resulted in a lower amortization expense by an amount of \$344. The net adjustment is \$11,722.

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 \$462 resulting from a higher allocation to the Intangible assets.

Those two elements resulted in a net entry in the total deficit of \$12,184.

g) Other long-term assets

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

h) Deferred income taxes

Adjustments made to the carrying values of Property, plant and equipment, Intangible assets, Asset retirement obligations, long-term debt and convertible debentures explain most of the \$4,165 variation in deferred income taxes.

i) Share-based compensation

Under IFRS 2, entities are required to treat each vesting installment as a separate share option grant because each installment has a different vesting period. This resulted in an increase of \$16 of the Share-based compensation expense with corresponding entries in the total deficit.

j) Equity portion of convertible debentures

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

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 \$1 into the accumulated other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 second 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 second 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 second 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 June 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

The useful life used to calculate amortization is as follows:

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

Project development costs

Project development costs represent costs incurred for the acquisition of prospective projects and for the development of hydroelectric, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 reclassified 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 on May 12, 2011. The effective date for the application of the revised standard is January 1, 2013. IFRS 11 will require investment in joint ventures to be accounted for using the equity method. This will result in significant changes in the presentation of the statement of financial position and the statement of operations. Net earnings/loss and net assets are not expected to differ as a result of applying the equity method of accounting. However, the balances of each line item on the statement of financial position and the statement of operations are expected to change significantly.

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

IFRS 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 an earn-out clause.

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; 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 indebtedness and for general corporate purposes.

- 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 conditional deferred payments based on the performance of the Cloudworks portfolio of assets.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

5. BUSINESS ACQUISITIONS (CONTINUED)

- 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 is estimated at \$2,396.

Additional cash flows generated from the assets acquired are expected to further increase the Corporation's 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 June 30, 2011 would have been \$44,189 and \$7,114 respectively and \$71,051 and \$8,325 respectively for the six-month period ended June 30, 2011.

The amount of revenue and net loss of Cloudworks Energy Inc. since April 4, 2011 included in the consolidated statement of earnings is \$16,157 and \$827 respectively for the 87 days ended June 30, 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

5. BUSINESS ACQUISITIONS (CONTINUED)

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 an earn-out clause. 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 is 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 six-month period ended June 30, 2011 would have been similar as the project is under construction and costs are capitalized.

The amount of revenues and profit (loss) of Stardale Solar Project since April 20, 2011 included in the consolidated statement of earnings is nil for the 71 days ended June 30, 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

6. SHARE EXCHANGE ARRANGEMENT (CONTINUED)

The 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 June 30, 2010 would have been \$25,355 and \$7,039 respectively and \$45,989 and \$74,096 respectively for the six-month period ended June 30, 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Hydroelectric facilities	Wind Farm facilities	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	-	241	204	40,298	236	40,979
Business Acquisitions	1,815	437,185	-	1,907	1,356	442,263
Dispositions	-	-	-	-	-	-
Net foreign exchange differences	(2)	(160)	-	-	-	(162)
As at June 30, 2011	1,883	885,043	197,660	73,353	3,509	1,161,448
Accumulated depreciation						
As at January 1, 2011	-	(43,599)	(21,838)	-	(621)	(66,058)
Depreciation	-	(8,674)	(4,755)	-	(352)	(13,781)
Dispositions	-	-	-	-	-	-
Net foreign exchange differences	-	36	-	-	-	36
As at June 30, 2011	-	(52,237)	(26,593)	-	(973)	(79,803)
Net value as at June 30, 2011	1,883	832,806	171,067	73,353	2,536	1,081,645

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 \$1,244 as at June 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Hydroelectric facilities	Wind Farm facilities	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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

8. LONG-TERM DEBT

	June 30, 2011	December 31, 2010
	\$	\$
Operating facility		
LIBOR advances, US\$ 13,900 renewable until March 2013 (rate of 2.77%)	13,407	13,825
Banker's acceptances renewable until March 2013 (rate of 3.96%)	19,800	-
Baie-des-Sables Facility		
Prime rate advances receivable until March 2013 (rate of 4.75%)	300	-
Bankers' acceptances renewable until March 2013 (rate of 3.95%)	52,300	27,400
Term loans		
Truck loans bearing interest between 0% and 0.9%, maturing in 2011 and 2012 (a)	93	-
Glen Miller, floating-rate term loan maturing in 2013 (rate of 2.67%)	14,000	14,500
Carleton, floating-rate term loan maturing in 2013 (rate of 2.66%)	47,546	49,083
Umbata Falls, floating-rate term loan maturing in 2014 (rate of 2.49%)	24,120	24,348
Fitzsimmons Creek, floating-rate construction loan (rate of 4.74%)	22,505	22,551
Hydro-Windsor, 8.25% fixed rate term loan maturing in 2016	5,442	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%)	103,553	104,406
L'Anse-à-Valleau, floating-rate term loan maturing in 2026 (rate of 2.39%)	46,815	47,891
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, real return bond maturing in 2049 (b)	226,188	-
Harrison Operating Facilities, fixed rate bond maturing in 2049 (c)	216,433	-
Harrison Operating Facilities, real return bond maturing in 2049 (d)	26,271	-
	868,923	359,995
Deferred financing costs	(1,118)	(1,305)
	867,805	358,690
Current portion of long-term debt	(15,050)	(9,259)
Long-term portion	852,755	349,431

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

As part of the Cloudworks acquisition, the following are the modifications to the long-term debt since the 2010 annual report:

(a) Truck loans

As part of the Cloudworks Acquisition, the Corporation assumed truck loans for a total of \$110. They are secured by the trucks. These loans are either interest-free or bear interest at a rate of 0.9%. They will mature in 2011 and 2012.

(b) Senior real return bond

As part of the Cloudworks Acquisition, the Corporation assumed a \$258,685 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.

(c) Senior fixed rate bond

As part of the Cloudworks Acquisition, the Corporation assumed a \$244,771 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.

(d) Junior real return bond

As part of the Cloudworks Acquisition, the Corporation assumed a \$28,743 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 addition, these 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	4,288	-	477	4,765
Principal repayment	(2,313)	-	-	(2,313)
Amortization of revaluation of long-term debt	330	-	(16)	314
Balance – June 30, 2011	226,188	216,433	26,271	468,892

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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, to \$500, 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.

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 June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$			
Net loss attributable to owners of the parent	(6,478)	(6,990)	(503)	(71,897)
Add:				
Distributions declared to former unitholders (a)	-	-	-	7,238
Less:				
Dividends declared on Series A preferred shares (including taxes)	(1,127)	-	(2,255)	-
Net loss available to common shareholders	(7,605)	(6,990)	(2,758)	(64,659)
Weighted average number of shares/units (when considering the 1.46 conversion ratio) outstanding (in 000)	80,326	59,533	69,987	51,461
Basic net loss per share (\$)	(0.09)	(0.12)	(0.04)	(1.26)
Weighted average number of shares/units (when considering the 1.46 conversion ratio) outstanding (in 000)	80,326	59,533	69,987	51,461
Effect of dilutive stock options (in 000) (b)	80	-	75	-
Diluted weighted average number of shares/units (when considering the 1.46 conversion ratio) outstanding (in 000)	80,406	59,533	70,062	51,461
Diluted net loss per share (\$) (c)	(0.09)	(0.12)	(0.04)	(1.26)

(a) For the six-month period ended June 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, 1,034,000 stock options (1,889,000 as of June 30, 2010), nil warrants (200,000 as of June 30, 2010) and 7,558,684 shares potentially issued on conversion of convertible debentures (7,558,684 as of June 30, 2010) were excluded in the calculation of diluted weighted average number of shares/units outstanding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

- (c) During the period covered by the financial statements, all of the issued convertible debentures, 1,034,000 of 1,842,024 stock options and the warrants were excluded from the calculation of diluted net earnings (loss) per share as the exercise price was above the average market price of ordinary shares during the period. In addition, 808,024 stock options were excluded from the calculation of diluted net loss per share as it was anti-dilutive due to a net loss available to common shareholders.

11. DIVIDENDS

a) Dividends on Series A preferred Shares

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

b) Dividends on Common Shares

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

12. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital items

	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$
Accounts receivable	(11,646)	(3,460)
Prepaid and others	(2,653)	(295)
Accounts payable and accrued liabilities	2,184	(16,895)
	(12,115)	(20,650)
<i>Additional information</i>		
Interest paid (including capitalized interest)	18,163	8,724
<i>Non-cash transactions</i>		
Increase of unpaid Property, plant and equipment	16,675	3,485
(Decrease) increase of unpaid Project development costs	(145)	48
Decrease of unpaid Intangible assets	(5)	-
Decrease of unpaid Long-term assets	(50)	-
Decrease of unpaid Financing fees	4	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(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 June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$	\$	\$
Salaries and short-term benefits	1,220	689	2,000	710
Attendance fees for members of the Board of Directors	123	149	284	360
Termination benefits	147	443	147	443
Share-based compensation	126	92	256	93
	1,616	1,373	2,687	1,606

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 June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$	\$	\$
Operating expense	686	441	1,046	744
Share-based compensation	126	92	256	93
General and administrative	1,406	1,105	2,403	1,232
Prospective projects expenses	647	524	890	524
Transaction costs	152	-	635	220
Capitalized in Property, plant and equipment	312	246	667	246
Capitalized in Project development costs	586	145	946	145
	3,915	2,553	6,843	3,204

15. FINANCE COSTS

	Three-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$	\$	\$
Interest on long-term debt and on convertible debentures	12,184	6,068	18,918	9,288
Compensation interest	4,765	-	4,765	-
Amortization of financing fees	50	61	103	632
Accretion expense on asset retirement obligations	133	98	58	251
Amortization of reevaluation of long- term debt and of convertible debentures	331	-	347	(37)
	17,463	6,227	24,191	10,134

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

16. 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 six-month periods ended June 30, 2011, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$805 and \$1,167 respectively, (\$873 and \$1,101 in 2010), representing a contribution of 1.8% for the three-month and six-month periods ending June 30, 2011 (3.4% and 2.8% for the three-month and six-month periods ending June 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 to are the following:

Major customer	Segment	Three-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
		\$	\$	\$	\$
Hydro-Québec	Hydroelectric and wind power generation	14,611	13,265	29,578	25,122
British Columbia Hydro and Power authority	Hydroelectric generation	23,636	8,136	25,456	8,645
		38,247	21,401	55,034	33,767

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

16. SEGMENT INFORMATION (CONTINUED)

Reportable Segments	Three-month period ended June 30, 2011			
	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
Operating revenues	37,395	6,450	-	43,845
Expenses:				
Operating	4,517	1,165	-	5,682
Share-based compensation	63	21	42	126
General and administrative	1,155	401	1,161	2,717
Prospective projects expenses	-	-	702	702
Earnings before interests, income taxes, depreciation and amortization and other items	31,660	4,863	(1,905)	34,618
Finance costs				17,463
Transaction costs				452
Other net revenues				(317)
Earnings before income taxes, depreciation and amortization and other items				17,020
Depreciation				8,378
Amortization				5,273
Unrealized net loss on derivative financial instruments				10,907
Unrealized net gain on foreign exchange				(6)
Loss before income taxes				(7,532)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

16. SEGMENT INFORMATION (CONTINUED)

Reportable Segments	Three-month period ended June 30, 2010			
	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
Operating revenues	19,168	6,187	-	25,355
Expenses:				
Operating	2,616	1,175	-	3,791
Share-based compensation	45	17	30	92
General and administrative	822	468	650	1,940
Prospective projects expenses	-	-	752	752
Earnings before interests, income taxes, depreciation and amortization and other items	15,685	4,527	(1,432)	18,780
Finance costs				6,227
Realized gain on derivative financial instruments				(555)
Other net expenses				85
Earnings before income taxes, depreciation and amortization and other items				13,023
Depreciation				5,399
Amortization				3,705
Unrealized net loss on derivative financial instruments				14,102
Unrealized net loss on foreign exchange				49
Loss before income taxes				(10,232)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

16. SEGMENT INFORMATION (CONTINUED)

Reportable Segments	Six-month period ended June 30, 2011			
	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
Operating revenues	49,223	15,438	-	64,661
Expenses:				
Operating	6,898	2,571	-	9,469
Share-based compensation	113	51	92	256
General and administrative	1,951	905	1,729	4,585
Prospective projects expenses	-	-	1,009	1,009
Earnings before interests, income taxes, depreciation and amortization and other items	40,261	11,911	(2,830)	49,342
Finance costs				24,191
Transaction costs				1,563
Other net revenues				(479)
Earnings before income taxes, depreciation and amortization and other items				24,067
Depreciation				13,781
Amortization				9,135
Unrealized net loss on derivative financial instruments				1,373
Unrealized net gain on foreign exchange				(47)
Loss before income taxes				(175)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

16. SEGMENT INFORMATION (CONTINUED)

Reportable Segments	Six-month period ended June 30, 2010			
	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
Operating revenues	28,013	11,340	-	39,353
Expenses:				
Operating	3,992	2,088	-	6,080
Share-based compensation	45	17	31	93
General and administrative	1,430	695	784	2,909
Prospective projects expenses	-	-	762	762
Earnings before interests, income taxes, depreciation and amortization and other items	22,546	8,540	(1,577)	29,509
Finance costs				10,134
Transaction costs				5,330
Realized gain on derivative instruments				(555)
Other net expenses				24
Earnings before income taxes, depreciation and amortization and other items				14,576
Depreciation				8,511
Amortization				6,134
Unrealized net loss on derivative financial instruments				16,142
Unrealized loss on unitholders capital				51,761
Expense related to royalty agreement upon share exchange arrangement				983
Unrealized net loss on foreign exchange				4
Loss before income taxes and distributions				(68,959)
As at June 30, 2011				
Total assets	1,329,814	248,525	260,130	1,838,469
As at December 31, 2010				
Total assets	600,007	264,449	82,684	947,140

17. SUBSEQUENT EVENTS

a) Financing of Stardale Solar Project

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 \$111,700 non-recourse term loan and a letter of credit facility of \$5,600. The loan agreement is valid for the construction period and for an 18-year term following the conversion of the construction loan into a term loan.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

b) Refinancing of operating credit facilities

On August 9, 2011, the Corporation announced it had completed the refinancing of 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") with a new five-year \$350,000 revolving credit facility. Under this new 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"). In addition to the increased availability, the Corporation will benefit from improved terms and conditions.

c) Dividends on Series A Preferred Shares

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

d) Dividends on Common Shares

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

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 August 10, 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 six-month periods ended June 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 six-month periods ended June 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 six-month periods ended June 30, 2011, have been prepared in accordance with International Financial Reporting Standards ("IFRS").**

Comparative figures as at June 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 six-month periods ended June 30, 2010, are presented in Note 1 of the condensed consolidated interim financial statements of the second 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 June 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 a business that the issuer acquired not more than 365 days prior to the end of the fiscal period; and (c) there was no change to the ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FORWARD-LOOKING STATEMENTS

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

OVERVIEW

General

The Corporation is a developer, owner and operator of renewable power-generating facilities. The Corporation's shares are listed on the Toronto Stock Exchange ("TSX") under the symbol INE. The Corporation is one of the most active in the Canadian renewable power industry, with a focus on hydroelectric, wind power and solar photovoltaic projects that benefit from low operating and management costs, 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. ("Cloudworks") (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, has increased Innergex's weighted average remaining PPA term from approximately 21 to 25 years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

All power generated from the operating facilities is sold to British Columbia Hydro and Power Authority ("BC Hydro") under 40-year PPAs. The average price for electricity purchased under the PPAs for the operating facilities is adjusted annually by a portion of the 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 three and six-month periods ended June 30, 2011, include Cloudworks' contribution since April 5, 2011.

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.

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 six-month period ended June 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 5.7 years. They sell the generated power under long-term PPAs that have a weighted average remaining life of 20.4 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 had begun on four of these projects, limited notices to proceed were issued on another one and construction is expected to begin on the remaining six projects between 2011 and 2014. The projects are expected to reach the commercial operation stage between 2011 and 2016; and
- a net capacity of more than 2,800 MW (gross 3,000 MW) in prospective projects that are at various stages of development.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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



Renewable Energy.
Sustainable Development.

Operating Facilities	Development Projects	Prospective Projects
<p>Hydro</p> <ul style="list-style-type: none"> - 100% St-Paulin, QC (8.0 MW) - 100% Windsor, QC (5.5 MW) - 100% Chaudière, QC (24.0 MW) - 100% Portneuf-1, QC (8.0 MW) - 100% Portneuf-2, QC (9.9 MW) - 100% Portneuf-3, QC (8.0 MW) - 100% Montmagny, QC (2.1 MW) - 100% Glen Miller, ON (8.0 MW) - 49% Umbata Falls, ON (23.0 MW) - 100% Batawa, ON (5.0 MW) - 100% Rutherford Creek, BC (49.9 MW) - 100% Ashlu Creek, BC (49.9 MW) - 50% Douglas Creek, BC (27.0 MW) - 50% Fire Creek, BC (23.0 MW) - 50% Stokke Creek, BC (22.0 MW) - 50% Tipella Creek, BC (18.0 MW) - 50% Lamont Creek, BC (27.0 MW) - 50% Upper Stave River, BC (33.0 MW) - 66% Fitzsimmons Creek, BC (7.5 MW) - 100% Horseshoe Bend, Idaho, USA (9.5 MW) <p>Wind</p> <ul style="list-style-type: none"> - 38% Baie-des-Sables, QC (109.5 MW) - 38% L'Anse-à-Valleau, QC (100.5 MW) - 38% Carleton, QC (109.5 MW) 	<p>Hydro</p> <ul style="list-style-type: none"> - 50% Kwoiek Creek, BC (49.9 MW) - 100% Northwest Stave, BC (17.5 MW) - 66% Boulder Creek, BC (23.0 MW) - 100% Tretheway Creek, BC (21.2 MW) - 66% North Creek, BC (16.0 MW) - 66% Upper Lillooet, BC (74.0 MW) - 100% Big Silver-Shovel Creek, BC (36.9 MW) <p>Wind</p> <ul style="list-style-type: none"> - 38% Gros-Morne (Phase I), QC (100.5 MW) - 38% Gros-Morne (Phase II), QC (110 MW) - 38% Montagne-Sèche, QC (58.5 MW) <p>Solar</p> <ul style="list-style-type: none"> - 100% Stardale, ON (33.2 MW_{DC}) 	<p>Hydro</p> <ul style="list-style-type: none"> - 48% QC Project (42.0 MW) - 100% BC Projects (819.8 MW) - 66% BC Projects (132.0 MW) <p>Wind</p> <ul style="list-style-type: none"> - 100% QC Projects (836.0 MW) - 70% QC Projects - Community (98.4 MW) - 50% Viger-Denonville, QC (24.6 MW) - 50% QC Projects - Community (49.2 MW) - 100% ON Projects - FIT (440.0 MW) - 49% ON Project - FIT (25.3 MW) - 100% BC Projects (475.0 MW) <p>Solar</p> <ul style="list-style-type: none"> - 100% ON Projects - FIT (59.0 MW)
<p>Hydro</p> <p>Gross capacity: 368.3 MW Net capacity¹: 279.1 MW</p> <p>Wind</p> <p>Gross capacity: 319.5 MW Net capacity¹: 121.4 MW</p> <p>Solar</p> <p>Gross capacity: - Net capacity¹: -</p> <p>Total</p> <p>Gross capacity: 687.8 MW Net capacity¹: 400.5 MW</p>	<p>238.5 MW 175.9 MW</p> <p>270.0 MW 102.6 MW</p> <p>33.2 MW 33.2 MW</p> <p>54.17 MW 31.17 MW</p>	<p>993.8 MW 928.0 MW</p> <p>1,948.5 MW 1,869.2 MW</p> <p>59.0 MW 59.0 MW</p> <p>3,001.3 MW 2,856.2 MW</p>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

BUSINESS STRATEGY

The Corporation's strategy for building shareholder value is: (i) to develop or acquire high-quality 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Operating Facilities – Estimated Long-Term Averages								
Project name	Electricity purchaser	PPA expiry	Net installed capacity ¹ (MW)	Average long-term production (GWh) (Net interest) ²				
				Q1	Q2	Q3	Q4	Total
<i>HYDRO</i>								
St-Paulin	HQ ³	2014 ⁴	8.0	7.4	15.5	8.0	10.1	41.1
Windsor	HQ ³	2016 ⁴	5.5	9.7	7.8	5.6	7.9	31.0
Chaudière	HQ ³	2019 ⁴	24.0	26.0	40.8	17.6	32.2	116.7
Portneuf-1	HQ ³	2021 ⁵	8.0	4.3	14.9	11.5	10.1	40.8
Portneuf-2	HQ ³	2021 ⁵	9.9	10.0	20.1	19.3	19.1	68.5
Portneuf-3	HQ ³	2021 ⁵	8.0	4.4	15.6	11.9	10.4	42.4
Montmagny	HQ ³	2021 ⁵	2.1	1.4	3.2	1.0	2.3	8.0
Glen Miller	OPA ⁶	2025	8.0	13.5	11.9	4.5	11.7	41.6
Umbata Falls	OPA ⁶	2028	11.3	8.3	18.5	10.4	16.2	53.5
Batawa	OEFC ⁷	2029	5.0	10.8	8.9	3.7	9.5	32.9
Rutherford Creek	BC Hydro ⁸	2024	49.9	11.0	63.7	80.0	25.3	180.0
Ashlu Creek	BC Hydro ⁸	2039	49.9	26.9	92.0	95.1	51.0	265.0
Douglas Creek	BC Hydro ⁸	2049	13.5	13.2	40.9	18.6	19.9	92.6
Fire Creek	BC Hydro ⁸	2049	11.5	17.3	40.6	18.6	17.7	94.2
Lamont Creek	BC Hydro ⁸	2049	13.5	17.2	41.0	23.7	23.3	105.2
Stokke Creek	BC Hydro ⁸	2049	11.0	12.5	37.2	23.2	15.2	88.0
Tipella Creek	BC Hydro ⁸	2049	9.0	8.8	29.0	18.8	13.4	70.0
Upper Stave River	BC Hydro ⁸	2049	16.5	16.0	53.8	47.4	27.2	144.4
Fitzsimmons Creek	BC Hydro ⁸	2050	5.0	3.3	10.9	13.3	5.4	33.0
Horseshoe Bend	IPC ⁹	2030	9.5	7.9	17.0	16.7	5.2	46.8
Subtotal			279.1	230.1	583.3	449.1	333.1	1,595.5
<i>WIND</i>								
Baie-des-Sables	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		20.4 years¹⁰	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. Remaining weighted average life of PPAs, before consideration of renewal options.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

QUARTERLY UPDATE

Highlights	Three-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$	\$	\$
Power generated (MWh) ¹	595,317	369,753	835,497	527,419
Operating revenues	43,845	25,355	64,661	39,353
EBITDA	34,618	18,780	49,342	29,509
Net loss	(6,834)	(7,039)	(1,104)	(71,952)
Dividends declared on Series A Preferred Shares	1,063	-	2,125	-
Dividends declared on common shares	11,786	8,821	20,418	16,059
Dividends declared on common shares (\$ per share)	0.145	0.148	0.290	0.317

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

In the second quarter of 2011, the increases in the power generated, operating revenues and EBITDA were due mainly to the addition of the Harrison Operating Facilities (total net installed capacity of 75.0 MW) acquired as part of the Cloudworks Acquisition on April 4, 2011, to the existing 17 Operating Facilities (total net installed capacity of 325.5 MW). In the six-month period ended June 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 six-month period ended June 30, 2011, compared with 2010, came mainly from the lower unrealized net loss on derivative financial instruments recorded in 2011 and the unrealized loss of \$51.8 million on unitholders' capital recorded in 2010.

Adjusted Net Earnings (Loss)

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

Adjusted Net Earnings (Loss)	Three-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$	\$	\$
Net loss	(6,834)	(7,039)	(1,104)	(71,952)
Add (deduct):				
Non-cash expense related to royalty agreement	-	-	-	983
Unrealized net loss on derivative financial instruments	10,907	14,102	1,373	16,142
Unrealized loss on unitholders' capital	-	-	-	51,761
Unrealized net (gain) loss on foreign exchange	(6)	49	(47)	4
Deferred income taxes (recovery) associated with the above elements	(2,943)	(3,821)	(358)	(4,625)
Adjusted net earnings (loss)	1,124	3,291	(136)	(7,687)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

For the second quarter of 2011, the decrease in adjusted net earnings is due mainly to an \$11.2 million increase in finance costs, a \$0.5 million increase in transactions costs, a decrease of \$0.6 million in realized gain on derivative financial instruments and a \$4.5 million increase in depreciation and amortization, partly offset by a \$15.8 million increase in EBITDA, which is detailed in the Operating Results table.

For the six-month period ended June 30, 2011, the reduction in adjusted net loss is due mainly to a \$19.8 million increase in EBITDA, which is detailed in the Operating Results table, a \$3.8 million decrease in transaction costs and \$7.2 million in non-recurrent distributions declared to unitholders in 2010, partly offset by a \$14.1 million increase in finance costs and a \$8.3 million increase in depreciation and amortization.

The unrealized loss on unitholders' capital had a significant impact in the six-month period ended June 30, 2010, due to the conversion to IFRS. The Corporation did not record any such loss for the six-month period ended June 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 the Bank of Tokyo Mitsubishi UFJ, Ltd. as lead arranger and administrative agent is valid for the construction period and for 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 refinancing of its \$170.0 million revolving credit facility, which was comprised of a \$117.4 million revolving credit facility (the "Operating Credit Facility") and a \$52.6 million revolving credit facility (the "BDS Credit Facility"), with a new five-year \$350.0 million revolving credit term facility. Under the new credit facility, the Operating Credit Facility has been increased to \$222.4 million, the BDS Credit Facility remains unchanged at \$52.6 million and a new \$75.0 million revolving credit term facility has been added (the "Construction Credit 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. Of these, construction of the Montagne-Sèche and Gros-Morne Phase I and Phase II wind farm projects began in June 2010 and construction of the Stardale Project began in November 2010. Construction of the Northwest Stave hydroelectric project is expected to start during the third quarter of 2011 while pre-engineering and preliminary work for the Kwoiek Creek hydroelectric project began in the fourth quarter of 2010. The remaining five hydroelectric projects have entered the permit phase. The following two tables provide an overview of these Development Projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(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		Expected COD ¹	Expected year-one	
			Estimated (\$M)	As at June 30, 2011 (\$M)		Revenues (\$M)	EBITDA (\$M)
<i>WIND</i>							
Montagne-Sèche, QC ²	58.5	193.4	103.0 ³	13.9	Q4 2011	4.8 ^{3,4}	4.3 ^{3,4}
Gros-Morne – Phase I, QC ²	100.5	308.9	348.5 ³ for both phases	29.0	Q4 2011	7.8 ^{3,4}	6.9 ^{3,4}
Gros-Morne – Phase II, QC ²	111.0	341.1		Q4 2012	8.6 ^{3,4}	7.5 ^{3,4}	
<i>SOLAR</i>							
Stardale, ON	33.2	39.0	140.0	46.0	Q1 2012	16.6	15.1

1. Commercial Operation Date

2. The Corporation owns 38% of this project.

3. See "Construction costs and revenues adjustments of Montagne-Sèche and Gros-Morne Phase I and II" paragraph below for more details.

4. Representing 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 second quarter of 2011, all the roads had been built, the substation was about to be energized, 30 out of the 39 foundations had been completed and six out of 39 turbines had been erected. Innergex expects the Montagne-Sèche project to be completed by December 1, 2011. Following quarter end, on July 14, 2011, the project achieved a significant milestone when the substation was energized.

Gros-Morne, Phase I and II

The construction of these wind farms began in the second quarter of 2010. At the end of the second quarter of 2011, 100% and 65% of the roads for Phase I and Phase II, respectively, had been built, the substation was 97% completed, all the foundations for Phase I and nine out of 74 foundations for Phase II had been completed and 26 out of 67 turbines had been erected for Phase I. 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. Following quarter end, on August 4, 2011, the project achieved a significant milestone when the substation was energized.

Construction costs and revenues adjustments of Montagne-Sèche and Gros-Morne Phase I and II

For each wind farm, the estimated total construction costs, revenues and EBITDA are as at January 1, 2004. At COD of each wind farm, the price payable by Hydro-Québec for the electricity delivered will be increased according to interest rates, Canadian and US CPI, USD/CAD exchange rate and a Canadian steel index. As per each wind farm's turbine supply agreement, the cost of wind turbines will also be increased according to similar indexes. These adjustment 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 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 second quarter of 2011, all the roads had been built and the fencing and clearing completed. Subarray foundations and racking are being designed under limited notices to proceed and PV modules installation is slated to commence in August 2011. Innergex expects the Stardale project to be completed by the end of the first quarter of 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Development Projects (permit phase)				
Project name and location	Installed capacity (MW)	Total construction costs		Expected COD
		Estimated (\$M)	Actual as at June 30, 2011 (\$M)	
<i>HYDRO</i>				
Kwoiek Creek, BC ¹	49.9	152.1	17.3	2013
Northwest Stave River, BC	17.5	69.8	7.3	2013
Boulder Creek, BC ²	23.0	84.0	0.6	2015
Tretheway Creek, BC	21.2	78.1	1.3	2015
North Creek, BC ²	16.0	71.0	0.3	2016
Upper Lillooet, BC ²	74.0	260.0	5.3	2016
Big Silver-Shovel Creek, BC	36.9	144.9	1.5	2016

1. The Corporation owns 50% of this project.

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

Kwoiek Creek

In the second quarter of 2011, the engineering, procurement and construction contractor continued working under limited notices to proceed. During this quarter, the turbine supplier and the transmission line contractor were selected and engineering work was executed under limited notices to proceed. Construction of this facility is expected to be completed in 2013.

Northwest Stave River

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

Boulder Creek, 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.

During the second quarter of 2011, the Corporation submitted an application under the FIT Program for a 10.0 MW solar photovoltaic project 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

OPERATING RESULTS

The Corporation's operating results for the three and six-month periods ended June 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; and for wind energy, the wind conditions. Also taken into account are factors such as site topography, installed capacity, energy losses, operational features and maintenance. Although production will fluctuate from year to year, over an extended period it should approach the forecast long-term average.

Production	Operating period April 1 to June 30, 2011		Operating period April 1 to June 30, 2010	
	Production (MWh)	Long-term average (MWh)	Production (MWh)	Long-term average (MWh)
<i>HYDRO</i>				
Saint-Paulin	16,119	15,532	10,354	15,532
Windsor	7,502	7,763	10,051	7,763
Chaudière	46,253	40,827	36,221	40,827
Portneuf-1	15,284	14,861	15,495	14,861
Portneuf-2	20,875	20,061	20,941	20,061
Portneuf-3	15,318	15,625	16,115	15,625
Montmagny	2,714	3,241	2,270	3,241
Glen Miller	12,511	11,860	9,404	11,860
Umbata Falls ¹	21,232	18,534	5,056	18,534
Batawa	10,524	8,945	7,788	8,945
Rutherford Creek	53,515	63,700	62,133	63,700
Ashlu Creek	75,744	91,970	81,813	91,970
Douglas Creek ²	36,833	40,073	-	-
Fire Creek ²	34,378	39,534	-	-
Lamont Creek ²	31,990	40,195	-	-
Stokke Creek ²	28,912	36,288	-	-
Tipella Creek ²	24,943	28,328	-	-
Upper Stave River ²	45,406	52,792	-	-
Fitzsimmons Creek	6,496	10,944	6,340	10,944
Horseshoe Bend	14,982	16,956	14,675	16,956
Subtotal	521,531	578,029	298,656	340,819
<i>WIND</i>				
Baie-des-Sables ³	22,484	24,962	18,895	24,962
L'Anse-à-Valleau ³	24,800	22,863	24,592	22,863
Carleton ³	26,502	28,206	27,610	28,206
Subtotal	73,786	76,031	71,097	76,031
Total	595,317	654,060	369,753	416,850

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

2. The long-term average was adjusted for the period during which the facility was contributing to Innergex' results as the Cloudworks Acquisition occurred on April 4, 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Corporation's facilities produced 595,317 MWh in the second quarter of 2011, 9% less than the long-term average of 654,060 MWh. This production level is due mainly to:

- hydrologic conditions lower than the long-term average in British Columbia and in Idaho, affecting the production of the Rutherford Creek, Ashlu Creek, Douglas Creek, Fire Creek, Lamont Creek, Stokke Creek, Tipella Creek, Upper Stave River, Fitzsimmons Creek and Horseshoe Bend facilities; and
- wind conditions lower than the long-term average at the Baie-des-Sables and Carleton wind farms.

These conditions were partially offset by favourable hydrologic conditions in Ontario, which benefited the Glen Miller, Umbata Falls and Batawa facilities, favourable hydrologic conditions at the Chaudière facility located in Quebec and favourable wind conditions at the L'Anse-à-Valleau wind farm.

Production	Operating period January 1 to June 30, 2011		Operating period January 1 to June 30, 2010	
	Production (MWh)	Long-term average (MWh)	Production (MWh)	Long-term average (MWh)
<i>HYDRO</i>				
Saint-Paulin	25,421	22,966	20,818	22,966
Windsor	18,216	17,493	21,067	17,493
Chaudière	76,071	66,826	66,394	66,826
Portneuf-1	19,742	19,151	19,957	19,151
Portneuf-2	30,585	30,094	31,384	30,094
Portneuf-3	19,862	20,023	20,692	20,023
Montmagny	3,933	4,674	4,075	4,674
Glen Miller ³	25,697	25,351	9,763	12,160
Umbata Falls ^{1,3}	29,064	26,828	5,259	18,718
Batawa	22,070	19,748	19,288	19,748
Rutherford Creek	57,214	74,700	71,327	74,700
Ashlu Creek ³	100,479	118,868	81,813	92,568
Douglas Creek ⁴	36,833	40,073	-	-
Fire Creek ⁴	34,378	39,534	-	-
Lamont Creek ⁴	31,990	40,195	-	-
Stokke Creek ⁴	28,912	36,288	-	-
Tipella Creek ⁴	24,943	28,328	-	-
Upper Stave River ⁴	45,406	52,792	-	-
Fitzsimmons Creek ³	6,528	14,283	6,340	11,022
Horseshoe Bend	21,315	24,883	18,393	24,883
Subtotal	658,659	723,098	396,570	435,026
<i>WIND</i>				
Baie-des-Sables ²	55,923	60,659	48,631	60,659
L'Anse-à-Valleau ²	58,137	61,048	53,923	61,048
Carleton ^{2,3}	62,778	66,291	28,295	29,055
Subtotal	176,838	187,998	130,849	150,762
Total	835,497	911,096	527,419	585,788

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

During the six-month period ended June 30, 2011, the Corporation's facilities produced 835,497 MWh, 8% less than the long-term average of 911,096 MWh. This production level is due mainly to:

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

These conditions were partially offset by favourable hydrologic conditions in Ontario, which benefited the Umbata Falls and Batawa facilities, as well as favourable hydrologic conditions in Quebec, which mainly benefited the St-Paulin and Chaudière facilities.

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

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

Operating Results	Three-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$	\$	\$
Operating revenues	43,845	25,355	64,661	39,353
Operating expenses	5,682	3,791	9,469	6,080
Share-based compensation	126	92	256	93
General and administrative expenses	2,717	1,940	4,585	2,909
Prospective projects expenses	702	752	1,009	762
EBITDA	34,618	18,780	49,342	29,509
Finance costs	17,463	6,227	24,191	10,134
Transaction costs	452	-	1,563	5,330
Realized gain on derivative financial instruments	-	(555)	-	(555)
Other net (revenues) expenses	(317)	85	(479)	24
Depreciation and amortization	13,651	9,104	22,916	14,645
Unrealized net loss on derivative financial instruments	10,907	14,102	1,373	16,142
Unrealized loss on unitholders' capital	-	-	-	51,761
Expense related to royalty agreement	-	-	-	983
Unrealized net (gain) loss on foreign exchange	(6)	49	(47)	4
Provision for income taxes (recovery)	(698)	(3,193)	929	(4,245)
Distributions declared to unitholders	-	-	-	7,238
Net loss	(6,834)	(7,039)	(1,104)	(71,952)
Owners of the parent	(6,478)	(6,990)	(503)	(71,897)
Non-controlling interests	(356)	(49)	(601)	(55)
	(6,834)	(7,039)	(1,104)	(71,952)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Revenues

In the second quarter of 2011, the Corporation recorded operating revenues of \$43.8 million (\$25.4 million in 2010). This increase is due mainly to additional revenues resulting from the Cloudworks Acquisition (\$16.2 million) and higher revenues from the Chaudière and Umbata facilities (\$2.1 million).

For the six-month period ended June 30, 2011, the Corporation recorded gross operating revenues of \$64.7 million (\$39.4 million in 2010). This performance is due mainly to additional revenues resulting from the Cloudworks Acquisition (\$16.2 million) and the Combination (\$7.7 million) and to higher revenues from the pre-combination assets of the Fund (aggregate positive impact of \$1.5 million).

As stipulated in the Baie-des-Sables, L'Anse-à-Valleau and Carleton PPAs, Hydro-Québec Distribution ("HQD") 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 HQD has thus been included in operating expenses whereas, under Canadian GAAP, the transfer was netted in operating revenues.

Expenses

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

In the second quarter of 2011, the Corporation recorded \$5.7 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 (\$1.6 million), which resulted in the Corporation operating a greater number of facilities in 2011 than in 2010. This situation, in addition to the Combination, also explains the increase in operating expenses for the six-month period ended June 30, 2011, when the Corporation recorded \$9.5 million in operating expenses (\$6.1 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 six-month periods ended June 30, 2011, non-cash share-based compensation was \$0.1 million and \$0.3 million (\$0.1 million in 2010). Prior to the Combination, such expenses were not incurred by the Fund.

General and administrative expenses totalled \$2.7 million and \$4.6 million respectively for the three and six-month periods ended June 30, 2011 (\$1.9 million and \$2.9 million respectively in 2010). These increases are due to the Corporation's larger size resulting from 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 \$0.7 million and \$1.0 million for the three and six-month periods ended June 30, 2011 (\$0.8 million for the corresponding periods in 2010).

Finance Costs

For the second quarter of 2011, finance costs totalled \$17.5 million (\$6.2 million in 2010). Of this difference, \$10.5 million is attributable to the increase in long-term debt resulting from the Cloudworks Acquisition.

For the six-month period ended June 30, 2011, finance costs rose to \$24.2 million (\$10.1 million in 2010). This increase is due to the issuance of Convertible Debentures and to increases in long-term debt resulting from the Combination and the Cloudworks Acquisition.

As at June 30, 2011, 94% of the Corporation's total debt, including Convertible Debentures and part of its future planned drawings, but excluding the real return bonds, was fixed or hedged against interest rate movements (96% as at June 30, 2010). As such, the effective all-in interest rate on the Corporation's debt and Convertible Debentures was 6.36% as at that date (5.38% as at June 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 second quarter of 2011, transaction costs totalled \$0.5 million as a result of the Cloudworks Acquisition and the acquisition of the Stardale Project (nil in 2010).

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

For the six-month period ended June 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.

Depreciation and Amortization

For the three and six-month periods ended June 30, 2011, depreciation and amortization expenses totalled \$13.7 million and \$22.9 million respectively (\$9.1 million and \$14.6 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 impacted by the transition to IFRS. International Accounting Standard ("IAS") 16 explicitly requires that significant components of an asset be depreciated separately based on their estimated useful lives.

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

Derivative Financial Instruments

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

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

The Corporation recorded a \$10.9 million unrealized net loss on derivative financial instruments in the second quarter of 2011 (unrealized net loss of \$14.1 million in 2010) due mainly to the decrease in benchmark interest rates for long-term maturities since the end of the first quarter of 2011. This loss had no cash impact on the Corporation's results.

For the six-month period ended June 30, 2011, the Corporation recorded a \$1.4 million unrealized net loss on derivative financial instruments (\$16.1 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

The transition to IFRS created this line item for the first quarter of 2010 as a result of the Combination. Under IAS 32, the unitholders' capital of the Fund is reclassified as a long-term liability with variations in fair value recognized in the statement of income.

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

Expense Related to Royalty Agreement

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

Provision for Income Taxes

In the second quarter of 2011, Innergex recorded current income tax provisions of \$0.1 million (current income tax recoveries of \$0.9 million in 2010) and deferred income tax recoveries of \$0.8 million (\$2.3 million in 2010). For the six-month period ended June 30, 2011, the Corporation recorded current income tax recoveries of \$1.0 million (idem in 2010), and deferred provision for income taxes of \$1.9 million (deferred income tax recoveries of \$3.2 million in 2010). Prior to the Combination, the Fund's income trust structure minimized income tax. As a result of the Combination and the Fund's conversion to a corporation, Innergex is now taxable, although it can take advantage of the Pre-Combination Innergex's large pool of tax bases and the resulting substantial available unused capital cost allowance to minimize current income taxes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Distributions Declared to Unitholders

Due to the transition to IFRS, the unitholders' capital has been reclassified as a long-term liability for the period between January 1, 2010, and March 30, 2010. Accordingly, the \$7.2 million in distributions declared to unitholders during the period up to the Combination on March 30, 2010, are included in the calculation of net earnings instead of being accounted as distributions.

Net Earnings

In the second quarter of 2011, the Corporation recorded a net loss of \$6.8 million (basic and diluted net loss of \$0.09 per share). For the corresponding period of 2010, Innergex recorded a net loss of \$7.0 million (basic and diluted net loss of \$0.12 per share). This favourable variation in net earnings is attributable mainly to a:

- \$15.8 million increase in EBITDA due mainly to the Cloudworks Acquisition; and
- \$3.2 million lower unrealized loss on the fair market value of derivative financial instruments.

These were partly offset by an:

- \$11.2 million increase in finance costs;
- \$0.5 million increase in transaction costs;
- \$4.5 million increase in depreciation and amortization; and
- \$2.5 million unfavourable difference in provision for income taxes.

For the six-month period ended June 30, 2011, the Corporation recorded a net loss of \$1.1 million (basic and diluted net loss of \$0.04 per share). For the corresponding period of 2010, Innergex recorded a net loss of \$72.0 million (basic and diluted net loss of \$1.26 per share). This favourable variation in net earnings is attributable mainly to a:

- \$19.8 million increase in EBITDA due mainly to the Cloudworks Acquisition;
- \$3.8 million decrease in transaction costs;
- \$14.8 million lower unrealized loss on the fair market value of derivative financial instruments;
- \$51.8 million non-recurrent expense recorded in the first quarter of 2010 related to the fair market value of the unitholders' capital;
- \$1.0 million favourable difference in expense related to royalty agreement; and
- \$7.2 million favourable difference in distributions declared to shareholders.

These were partly offset by a:

- \$14.1 million increase in finance costs;
- \$8.3 million increase in depreciation and amortization; and
- \$5.2 million unfavourable difference in provision for income taxes.

The basic and diluted per-share figures for the three-month period ended June 30, 2011, are based on a weighted average number of 80,326,422 common shares outstanding. The basic and diluted per-share figures for the six-month period ended June 30, 2011, are based on a weighted average number of 60,986,956 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 non-dilutive in the computation of per-share figure, even though the average market price of the Corporation's common share was above the strike price, as the Corporation recognized a net loss for the three and six-month periods ended June 30, 2011. Convertible Debentures were also 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 year ended December 31, 2010, per-share figures were based on a weighted average number of 55,529,845 common shares outstanding. All stock options were non-dilutive during this period. For 1,034,000 stock options, the average market price of the Corporation's common share was below the strike price. For the other 808,024 stock options, their inclusion would have resulted in a lower loss per common share amount. Convertible Debentures were also non-dilutive, as the average market price was below the conversion price.

As at June 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Non-controlling Interests

For the three and six-month periods ended June 30, 2011, the Corporation allocated losses of \$0.4 million and \$0.6 million respectively to non-controlling interests (not material 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 Kwolek Creek Development Project.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

For the six-month period ended June 30, 2011, cash flows generated by operating activities totalled \$18.8 million (use of \$16.2 million in 2010). This difference is due primarily to the \$19.8 million increase in EBITDA, the \$3.8 million decrease in transaction costs, the \$8.5 million decrease in the variation of non-cash working capital items and the non-recurrent \$9.7 million in distributions paid to unitholders in 2010, partly offset by a \$8.8 million increase in interest paid. The variation in non-cash working capital items stems mainly from the positive impact of an increase in accounts payable and accrued liabilities compared with a decrease in the same period of 2010 (\$19.1 million), partly offset by a larger increase in accounts receivable (\$8.2 million) and an increase in prepaid and others (\$2.4 million). At the time of the Combination, the Pre-Combination Innergex had \$88.4 million in cash and cash equivalents that it used partly to pay down accounts payable and accrued liabilities owed by the Pre-Combination Innergex entities.

Cash Flows from Financing Activities

For the six-month period ended June 30, 2011, cash flows generated by financing activities totalled \$173.6 million (\$45.1 million used in 2010). This results mainly from a \$38.0 million net long-term debt increase (\$45.1 million net repayment in 2010) and a \$155.3 million issuance of share capital (nil in 2010), partly offset by an amount of \$19.8 million paid in dividends to preferred and common shareholders (nil in 2010).

Cash Flows from Investing Activities

For the six-month period ended June 30, 2011, cash flows used by investing activities amounted to \$191.4 million (inflows of \$78.4 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 \$24.0 million outflow (\$1.8 million in 2010), additions to project development costs for a \$11.4 million outflow (\$6.5 million 2010), additions to intangible assets and other long-term assets for a combined \$0.9 million outflow (\$0.1 million in 2010), decrease in restricted cash and short-term investments for a \$0.9 million inflow (nil in 2010) and net investments into the reserves for a \$0.1 million outflow (net outflows of \$1.6 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 six-month period ended June 30, 2011, the Corporation generated \$0.9 million in cash and cash equivalents (generation of \$17.1 million in 2010) as a net result of its operating, financing and investing activities.

As at June 30, 2011, the Corporation had cash and cash equivalents amounting to \$43.0 million (\$42.1 million as at December 31, 2010).

Dividends to Preferred Shareholders

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

Dividends to Common Shareholders

On August 10, 2011, the Corporation declared a dividend of \$0.1450 per common share payable on October 17, 2011, to common shareholders of record at the close of business on September 30, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

USE OF FINANCING PROCEEDS

Use of Financing Proceeds	Six-month period ended June 30, 2011 \$	Six-month period ended June 30, 2010 \$
Proceeds from issuance of long-term debt	56,000	90,720
Proceeds from issuance of share capital	155,321	-
Financing proceeds	211,321	90,720
Cash acquired on business acquisitions	4,943	88,394
Business acquisitions	(160,844)	-
Additions to property, plant and equipment	(24,017)	(1,815)
Additions to intangible assets	(302)	(68)
Additions to project developments costs	(11,375)	(6,457)
Additions to other long-term assets	(642)	(78)
Refinancing of long-term debt	-	(121,238)
Payment of deferred financing costs	(88)	(1,714)
Cancellation of revolving credit facility	-	(12,900)
Long-term debt repayment	(17,924)	-
Use of financing proceeds	(210,249)	(55,876)
Contribution to working capital	1,072	34,844

In the first six months of 2011, the Corporation borrowed \$56.0 million and issued shares for \$155.3 million to pay for the Cloudworks Acquisition, 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 June 30, 2011, the Corporation had \$1,838.5 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 \$36.8 million, due to the Cloudworks Acquisition;
- accounts receivable increased from \$14.7 million to \$31.2 million, as explained in the "Working Capital" section below;
- reserve accounts increased from \$21.4 million to \$50.0 million, due to the Cloudworks Acquisition;
- property, plant and equipment increased from \$612.3 million to \$1,081.6 million due to the Cloudworks Acquisition;
- intangible assets increased from \$210.8 million to \$436.4 million due mainly to the Cloudworks Acquisition; and
- project development costs increased from \$5.9 million to \$117.8 million due mainly to the Cloudworks Acquisition.

Working Capital

As at the end of the second quarter of 2011, working capital was positive at \$56.3 million with a working capital ratio of 1.87:1.00. 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 six 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 executed \$350.0 million revolving credit term facility. As at June 30, 2011, US\$13.9 million and \$72.4 million of these credit facilities had been drawn as cash advances and \$21.8 million had been used for issuing letters of credit.

Accounts receivable increased from \$14.7 million as at December 31, 2010, to \$31.2 million as at June 30, 2011, as a result of higher revenues in the second 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Accounts payable and accrued liabilities increased from \$21.7 million as at December 31, 2010, to \$24.9 million as at June 30, 2011. They are comprised mainly of trades and accruals related to the Cloudworks Acquisition and trade payables related to the Carleton, Rutherford Creek, L'Anse-à-Valleau and Baie-des-Sables facilities.

Prepaid and others increased from \$4.6 million as at December 31, 2010, to \$5.6 million as at June 30, 2011.

Derivative financial instruments included in current liabilities increased from \$8.5 million as at December 31, 2010, to \$9.6 million as at June 30, 2011, due to a decrease in benchmark interest rates for short-term maturities since the end of 2010.

\$9.5 million of the current portion of long-term debt totalling \$15.1 million relates to the L'Anse-à-Valleau, Hydro-Windsor, Glen Miller, Umbata Falls, Carleton, Ashlu Creek and Fitzsimmons Creek credit facilities. The remaining \$5.6 million relates to the newly acquired Harrison Operating Facilities.

Reserve Accounts

Reserve Accounts Breakdown	June 30, 2011	December 31, 2010
	\$	\$
Hydrology/wind power reserve	45,386	16,511
Major maintenance reserve	4,647	4,436
Levelization reserve	-	494
Total	50,033	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 conditions and other unpredictable events. The amounts in this reserve are expected to vary from quarter to quarter according to the seasonality of cash flows. The increase in this reserve since December 31, 2010, is attributable mainly to the Cloudworks Acquisition (\$28.7 million).
- 2) The Major maintenance reserve, which has been established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity. The increase in this reserve since December 31, 2010, is due mainly to the Cloudworks Acquisition.

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. The depreciation for solar PV facilities will be established prior to the start of commercial operation. 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 \$1,081.6 million in property, plant and equipment as at June 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 \$436.4 million in intangible assets as at June 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 \$2.7 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 June 30, 2011, the Corporation had \$117.8 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 June 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 six-month period ended June 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 June 30, 2011, the Corporation had \$29.5 million in accrual for acquisition of long-term assets (nil as at December 31, 2010).

Long-Term Debt

As at June 30, 2011, long-term debt was \$867.8 million (\$358.7 million as at December 31, 2010). The increase in long-term debt results from the Cloudworks Acquisition and net drawings under the Operating Credit Facility and under the BDS Credit Facility, partly offset by scheduled repayments of long-term debt (\$4.3 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Long-Term Debt	June 30, 2011	December 31, 2010
	\$	\$
Operating Credit Facility (i)		
Bankers' acceptances renewable until March 2013	19,800	-
LIBOR advances, US\$13,900 renewable until March 2013	13,407	13,825
BDS Credit Facility (ii)		
Prime rate advances renewable until March 2013	300	-
Bankers' acceptances renewable until March 2013	52,300	27,400
Term loans		
Truck loans, maturing in 2011 and 2012 (iii)	93	-
Glen Miller, floating-rate term loan maturing in 2013 (iv)	14,000	14,500
Carleton, floating-rate term loan maturing in 2013 (v)	47,546	49,083
Umbata Falls, floating-rate term loan maturing in 2014 (vi)	24,120	24,348
Fitzsimmons Creek, floating-rate construction loan (vii)	22,505	22,551
Hydro-Windsor, fixed rate term loan maturing in 2016 (viii)	5,442	5,841
Rutherford Creek, fixed rate term loan maturing in 2024 (ix)	50,000	50,000
Ashlu Creek, floating-rate term loan maturing in 2025 (x)	103,553	104,406
L'Anse-à-Valleau, floating-rate term loan maturing in 2026 (xi)	46,815	47,891
Kwoiek Creek, fixed rate subordinated term loan (xii)	150	150
Bonds		
Harrison, real return bond maturing in 2049 (xiii)	226,188	-
Harrison, fixed rate bond maturing in 2049 (xiv)	216,433	-
Harrison, real return bond maturing in 2049 (xv)	26,271	-
Deferred financing costs	(1,118)	(1,305)
	867,805	358,690
Current portion of long-term debt	(15,050)	(9,259)
	852,755	349,431

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

- i) a \$117.4 million revolving credit facility secured by a first-ranking hypothec on Innergex assets and by various security interests granted by some of its subsidiaries. The facility will mature in 2013 and is not amortized. Advances are made in the form of bankers' acceptances ("BA"), prime-rate advances, U.S. base-rate advances, LIBOR advances or letters of credit. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of consolidated senior debt to adjusted EBITDA. As at June 30, 2011, \$33.2 million was due under this facility and \$21.8 million was used for the issuance of letters of credit; thus the unused and available portion of the Operating Credit Facility totalled \$62.4 million. As at June 30, 2011, the all-in interest rate was 5.31% after accounting for the interest rate swap;
- ii) a \$52.6 million revolving credit facility guaranteed by the Corporation's 38% interest in the Baie-des-Sables wind farm and a security interest granted by Innergex. The facility will mature in 2013 and is not amortized. Advances are made in the form of BA, prime-rate advances, U.S. base-rate advances or LIBOR advances. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of consolidated senior debt to adjusted EBITDA. As at June 30, 2011, the total amount of the facility was used. As at June 30, 2011, the all-in interest rate was 7.02% after accounting for the interest rate swap;
- iii) 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;
- iv) 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 June 30, 2011, the all-in interest rate was 5.68% after accounting for the interest rate swaps;

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- v) 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 June 30, 2011, the all-in effective interest rate was 4.82% after accounting for the interest rate swap;
- vi) 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 June 30, 2011, the all-in interest rate was 5.31% after accounting for the interest rate swap;
- vii) 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 June 30, 2011, the all-in effective interest rate was 6.88% after accounting for the interest rate swaps;
- viii) 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%;
- ix) 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%;
- x) 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 June 30, 2011, the all-in effective interest rate was 6.23% after accounting for the interest rate swaps;
- xi) 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 June 30, 2011, the all-in interest rate was 5.93% after accounting for the interest rate swap;
- 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 statement consolidation process, amounted to \$16.2 million as at June 30, 2011;

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- 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 June 30, 2011, the all-in effective interest rate was 6.47%;
- 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 xiii) and xiv). 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 June 30, 2011, the all-in effective interest rate was 7.47%.

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 June 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, and on July 15, 2011.

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

Derivative Financial Instruments and Risk Management

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

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

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Taken together, the swap contracts shown in the following table allow the Corporation to eliminate the risk of interest rate increases on a total of \$408.0 million in actual and planned long-term debt. Combined with the \$272.1 million in existing fixed-rate debts and the \$79.4 million in Convertible Debentures, this means that 94% of the Corporation's actual debt and part of its planned indebtedness are protected from interest rate increases, excluding the real return bonds totalling \$252.5 million as at June 30, 2011. The real return bonds are not subject to interest rate fluctuations; their 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 rising interest expenses is limited.

Swap Contract Notional Amounts	Early termination option	June 30, 2011	December 31, 2010
		\$	\$
Interest rate swaps, rates ranging from 3.96% to 4.09%, expiring in June 2015	None	15,000	15,000
Interest rate swap, 4.27%, expiring in November 2016	None	3,000	3,000
Interest rate swap, 4.41%, expiring in June 2018	March 2013	30,000	30,000
Interest rate swap, 4.27%, expiring in June 2018	March 2013	52,600	52,600
Interest rate swap, 4.93%, amortized until March 2026	None	46,814	47,890
Interest rate swap, 3.45%, amortized until March 2027	December 2013	46,816	48,315
Forward interest rate swaps, 4.31%, amortized until June 2030	June 2016	31,690	31,690
Forward interest rate swaps, 4.33%, amortized until June 2031	September 2011	49,940	49,940
Interest rate swap, 4.11%, amortized until June 2034	None	24,120	24,348
Interest rate swaps, 4.70%, amortized until June 2035	June 2025	108,105	109,067
		408,085	411,850

Derivatives had a net negative value of \$31.5 million at the end of the second quarter of 2011 (negative \$31.3 million at the end of 2010). This difference is due to a slight decrease in benchmark interest rates for long-term maturities since the end of 2010.

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

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 June 30, 2011, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at \$10.2 million (\$10.9 million as at December 31, 2010). These instruments represent the value attributed to minimum inflation clauses of 3% per year included in these PPA contracts.

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Deferred Income Taxes

The tax impact of temporary differences may result in future tax assets or liabilities. As at June 30, 2011, the Corporation's net deferred tax liability was \$127.2 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 June 30, 2011, the Corporation had issued letters of credit totalling \$25.3 million to meet its obligations under its various PPAs and other agreements. Of this amount, \$21.8 million was issued under its Operating Credit Facility and the remainder under the projects' non-recourse credit facilities. As at that date, Innergex had also issued a total of \$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 June 30, 2011, the shareholders' equity of the Corporation totalled \$646.9 million, including \$117.0 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 August 10, 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 June 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	1,016,158	16,379	199,068	36,342	764,369
Interest on long-term debt and convertible debentures	701,193	51,533	94,931	78,874	475,855
Operating leases	13,694	411	845	877	11,562
Purchase (Contractual) obligations ¹	132,148	84,781	24,367	3,107	19,893
Other ²	3,364	826	939	873	725
Total contractual obligations	1,866,557	153,930	320,150	120,073	1,272,404

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

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

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.

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

Adjusted Cash Flows from Operating Activities	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$	\$
Cash flows from operating activities	18,814	(16,194)
Change in non-cash working capital items	12,115	20,650
Transaction costs	1,563	5,330
Distributions paid to unitholders	-	9,688
Net funds (invested into) withdrawn from the reserve accounts (not funded from long-term debt)	(64)	451
Adjusted cash flows from operating activities	32,428	19,925

For the six-month period ended June 30, 2011, Innergex generated \$32.4 million in adjusted cash flows from operating activities (\$19.9 million in 2010). This improvement is due mainly to a \$19.8 million increase in EBITDA, partly offset by an increase of \$8.8 million in interest paid and an increase of \$1.9 million in taxes paid.

DIVIDENDS

Dividends	Three-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	\$		\$	\$
Dividends declared on Series A Preferred Shares	1,063	-	2,125	-
Dividends declared on common shares	11,786	8,821	20,418	16,059
Weighted average number of common shares outstanding – basic	80,326	59,533	69,987	51,461
Dividends declared on common shares (\$ per share)	0.145	0.148	0.290	0.317

During the three and six-month periods ended June 30, 2011, the Corporation declared dividends of \$1.1 million and \$2.1 million respectively on its Series A Preferred Shares (nil in 2010) and \$11.8 million and \$20.4 million on its common shares or \$0.145 and \$0.290 per common share respectively (\$8.8 million and \$16.1 million or \$0.148 and \$0.317 per common share respectively in 2010).

SEGMENT INFORMATION

Geographic Segments

As at June 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 six-month periods ended June 30, 2011, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$0.8 million and \$1.2 million respectively (\$0.9 million and \$1.1 million respectively in 2010), representing contributions of 1.8% and 1.8% respectively (3.4% and 2.8% 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.

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.

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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 second 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 June 30, 2011				
Power generated (MWh)	521,531	73,786	-	595,317
Operating revenues from external clients	37,395	6,450	-	43,845
Expenses:				
Operating expenses	4,517	1,165	-	5,682
Share-based compensation	63	21	42	126
General and administrative expenses	1,155	401	1,161	2,717
Prospective projects expenses	-	-	702	702
Earnings before interest, income taxes, depreciation and amortization and other items	31,660	4,863	(1,905)	34,618
Three-month period ended June 30, 2010				
Power generated (MWh)	298,656	71,097	-	369,753
Operating revenues from external clients	19,168	6,187	-	25,355
Expenses:				
Operating expenses	2,616	1,175	-	3,791
Share-based compensation	45	17	30	92
General and administrative expenses	822	468	650	1,940
Prospective projects expenses	-	-	752	752
Earnings before interest, income taxes, depreciation and amortization and other items	15,685	4,527	(1,432)	18,780

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Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
Six-month period ended June 30, 2011				
Power generated (MWh)	658,659	176,838	-	835,497
Operating revenues from external clients	49,223	15,438	-	64,661
Expenses:				
Operating expenses	6,898	2,571	-	9,469
Share-based compensation	113	51	92	256
General and administrative expenses	1,951	905	1,729	4,585
Prospective projects expenses	-	-	1,009	1,009
Earnings before interest, income taxes, depreciation and amortization and other items	40,261	11,911	(2,830)	49,342
Six-month period ended June 30, 2010				
Power generated (MWh)	396,570	130,849	-	527,419
Operating revenues from external clients	28,013	11,340	-	39,353
Expenses:				
Operating expenses	3,992	2,088	-	6,080
Share-based compensation	45	17	31	93
General and administrative expenses	1,430	695	784	2,909
Prospective projects expenses	-	-	762	762
Earnings before interest, income taxes, depreciation and amortization and other items	22,546	8,540	(1,577)	29,509
As at June 30, 2011				
Goodwill	8,269	-	-	8,269
Total assets	1,329,814	248,525	260,130	1,838,469
Acquisition of property, plant and equipment since the beginning of the year	438,872	263	44,105	483,240
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 and six-month periods ended June 30, 2011, the hydroelectric generation segment produced 10% and 9% less power than the long-term averages respectively due to lower-than-anticipated hydrologic conditions at the segment's facilities located in British Columbia and the United States, resulting in operating revenues of \$37.4 million and \$49.2 million respectively. In the corresponding periods of 2010, production was below the long-term averages by 12% and 9% due to lower-than-anticipated hydrologic conditions for most of its facilities and to the tunnel inspection and improvement work performed at the Ashlu Creek facility. These level of production resulted in gross operating revenues of \$19.2 million and \$28.0 million respectively.

The contribution from the Harrison Operating Facilities is included as of April 5, 2011. These facilities contributed \$16.2 million 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.

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Wind Power Generation Segment

For the three and six-month periods ended June 30, 2011, the wind power generation segment produced 3% and 6% less power than expected respectively, resulting in operating revenues of \$6.5 million and \$15.4 million respectively. This performance is due mainly to lower-than-anticipated wind conditions at the three wind farms. In the corresponding periods of 2010, production was 6% and 13% below expectations. This was the result of weather conditions below long-term averages and to a five-day shutdown of the L'Anse-à-Valleau wind farm in January 2010, which was caused by transmission line work carried out by Hydro-Québec. These production levels resulted in gross operating revenues of \$6.2 million and \$11.3 million respectively.

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 \$4.1 million increase in operating revenues for the six-month period ended June 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.

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 second 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.

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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 second 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 reclassified 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 – Investments in Joint Ventures

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 Statement of Financial Position as at that date. The closing date of the audited consolidated financial statements will be December 31, 2011. The adoption date of the IFRS by the Corporation is January 1, 2011.

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

The Corporation applied the following exemptions from other standards:

Business Combination

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

Deemed Cost of Property, Plant and Equipment and Intangible Assets

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

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

- **Estimates**

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Revenues

The Corporation is entitled to subsidies under the ecoENERGY Initiative. The subsidies are equal to \$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 balance sheet date and must be accounted for as a financial expense.

Share-based Compensation

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

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

Transaction Costs

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

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

Depreciation

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

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

Amortization

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

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

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

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

Unrealized Loss on Unitholders' Capital

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Deferred Income Taxes

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

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

Adjustments made to the carrying values of property, plant and equipment, intangible assets, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

QUARTERLY FINANCIAL INFORMATION

For the three-month periods ended (unaudited):

Quarterly Financial Information (unaudited) for the Three-Month Periods Ended:				
(in millions of dollars, unless otherwise stated)	June 30, 2011 ¹	Mar. 31, 2011 ¹	Dec. 31, 2010 ¹	Sept. 30, 2010 ¹
Power generated (MWh)	595,317	240,180	343,754	356,262
Operating revenues	43.8	20.8	26.8	25.2
EBITDA	34.6	14.7	19.0	19.7
Net earnings (loss)	(6.8) ²	5.7 ³	14.9 ⁴	(11.6) ⁵
Net earnings (loss) (\$ per share – basic and diluted)	(0.09) ²	0.08 ³	(0.25) ⁴	(0.19) ⁵
Dividends declared on Series A Preferred Shares	1.1	1.1	1.5	-
Dividends declared on common shares	8.8	8.6	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

2. Excluding the \$10.9 million unrealized loss on derivative financial instruments and the related \$2.9 million deferred income tax recovery, the net earnings for Q2-2011 would have been \$1.2 million (\$0.01 per basic and diluted common share).

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

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

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

Quarterly Financial Information (unaudited) for the Three-Month Periods Ended:				
(in millions of dollars, unless otherwise stated)	June 30, 2010 ¹	Mar. 31, 2010 ¹	Dec. 31, 2009 ²	Sept. 30, 2009 ²
Power generated (MWh)	369,753	157,666	189,011	223,302
Operating revenues	25.4	14.0	13.2	15.0
EBITDA	18.8	10.7	10.2	11.9
Net (loss) earnings	(7.0) ³	(64.9) ⁴	7.0	2.8
Net (loss) earnings (\$ per share – basic and diluted)	(0.12) ³	(1.33) ⁴	0.16	0.07
Dividends declared on common shares	-	7.2	7.4	7.4
Dividends declared on common shares (\$ per share)	0.148	0.169	0.171	0.171

1. Prepared in accordance with IFRS

2. Prepared in accordance with Canadian GAAP

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 EVENTS

Financing of the Stardale Solar Project

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 the Bank of Tokyo Mitsubishi UFJ, Ltd. as lead arranger and administrative agent is valid for the construction period and for an 18-year term following the conversion of the construction loan into a term loan.

Refinancing of operating credit facilities

On August 9, 2011, Innergex announced that it had completed the refinancing of its \$170.0 million revolving credit facility comprised of a \$117.4 million revolving credit facility and a \$52.6 million revolving credit facility with a new five-year \$350.0 million revolving credit term facility. Under this new credit facility, the Operating Credit Facility has been increased to \$222.4 million, the BDS Credit Facility remains unchanged at \$52.6 million and a new \$75.0 million revolving credit term facility has been added. In addition to the increased availability, the Corporation benefits from more flexibility and improved terms and conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Information for Investors

Stock Exchange Listing

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

Rating Agencies

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

Transfer Agent and Registrar

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Telephone: 1 800 564-6253 or 514 982-7555
Email: service@computershare.com

Auditors

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

Electronic Delivery

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

Investor Relations

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

Jean Trudel
Chief Investment Officer and
Senior Vice President – Communications

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

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Sustainable Development.

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