

2010

First Quarter Report



Consolidated financial statements

Three-month period ended March 31, 2010

(Unaudited)

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

Consolidated statements of Earnings	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
	\$	\$
Revenues		
Operating	13,551	13,941
	13,551	13,941
Expenses		
Operating expenses	1,862	1,913
Stock-based compensation	2	-
General and administrative expenses	969	938
	2,833	2,851
Earnings from operations	10,718	11,090
Prospective projects expenses	10	-
Earnings before interests, income taxes, depreciation and amortization and other items	10,708	11,090
Interest on long-term debt and convertible debentures	3,754	3,337
Expense related to royalty agreement upon share exchange arrangement (Note 3)	983	-
Other net (revenues) expenses	(61)	2
Earnings before income taxes, depreciation and amortization and other items	6,032	7,751
Depreciation and amortization	5,537	5,337
Unrealized net loss (gain) on derivative financial instruments	2,040	(574)
Unrealized foreign exchange (gain) loss	(42)	97
(Loss) earnings before income taxes	(1,503)	2,891
Income taxes		
Current (recoverable)	(107)	(54)
Future	(897)	(74)
	(1,004)	(128)
Net (loss) earnings	(499)	3,019
Weighted average number of shares outstanding (in 000)	43,299	42,930
Basic net (loss) earnings per share	(0.01)	0.07
Diluted number of shares outstanding (in 000)	43,299	42,930
Diluted net (loss) earnings per share	(0.01)	0.07

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

Consolidated financial statements

Three-month period ended March 31, 2010

(Unaudited)

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

Consolidated statements of Comprehensive (loss) income	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
	\$	\$
Net (loss) earnings	(499)	3,019
Other items of comprehensive income		
Unrealized foreign exchange (loss) gain on translation of a self-sustaining foreign subsidiary	(135)	120
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	134	(120)
	(1)	-
Comprehensive (loss) income	(500)	3,019

Consolidated financial statements

Three-month period ended March 31, 2010

(Unaudited)

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

Consolidated Balance Sheets	March 31, 2010	December 31, 2009
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	29,761	9,352
Accounts receivable	9,833	6,164
Current portion of reserve accounts	275	477
Future income tax	2,354	213
Derivative financial instruments	1,247	1,369
Prepaid and others	2,465	1,938
	45,935	19,513
Reserve accounts	18,299	14,913
Property, plant and equipment	600,071	334,199
Intangible assets	185,840	119,426
Project development costs	11,397	-
Derivative financial instruments	12,986	8,779
Future income taxes	9,637	2,372
Goodwill	8,269	8,269
Other long-term assets	63	670
	892,497	508,141
Liabilities		
Current liabilities		
Distributions payable to unitholders	-	2,451
Accounts payable and accrued liabilities	32,086	9,574
Current portion of future income taxes	689	-
Derivative financial instruments	8,872	5,422
Current portion of long-term debt (Note 4)	8,490	2,758
	50,137	20,205
Derivative financial instruments	6,566	4,795
Accrual for acquisition of long-term assets	7,551	-
Long-term debt (Note 4)	375,702	221,803
Asset retirement obligations	1,498	977
Future income taxes	76,794	70,883
Convertible debentures (Note 5)	79,222	-
	597,470	318,663
Shareholders' equity	295,027	189,478
	892,497	508,141

Commitments (Note 9).

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

Consolidated financial statements

Three-month period ended March 31, 2010

(Unaudited)

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

Consolidated statements of changes in Shareholders' Equity	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
	\$	\$
Number of units – beginning (in 000)	29,404	29,404
Trust units owned by the Corporation and not converted into shares (in 000)	(4,724)	-
Trust units converted into shares (in 000)	(24,680)	-
Shares issued upon conversion of trust units at a 1.46 ratio (in 000)	36,033	-
Shares of the Corporation already issued prior to conversion (in 000)	23,500	-
Number of units – end (in 000)	-	29,404
Number of shares – end (in 000)	59,533	-
Unitholders' capital account – beginning	309,681	309,681
Reduction of unitholders' capital account owned by the Corporation and not converted into shares	(49,756)	-
Reduction of capital accounted upon acquisition of the Corporation	(7,409)	-
Unitholders' capital account converted into shares	(259,925)	-
Shareholders' capital account upon conversion of trust units	259,925	-
Shareholders' capital account from shares of the Corporation already issued prior to conversion	167,129	-
Shareholders' capital account from expense related to royalty agreement upon share exchange arrangement	983	-
Unitholders' capital account – end	-	309,681
Shareholders' capital account – end	420,628	-
Fair value of stock-based compensation accounted upon acquisition of the Corporation	497	-
Stock-based compensation of the period	2	-
Stock-based compensation – end	499	-
Equity portion of convertible debentures accounted upon acquisition of the Corporation (Notes 3 and 5)	1,841	-
Deficit, beginning	(120,274)	(117,113)
Net (loss) earnings	(499)	3,019
Distributions declared to unitholders	(7,238)	(7,349)
Deficit, end	(128,011)	(121,443)
Cumulative other comprehensive income – beginning	71	97
Other items of comprehensive income	(1)	-
Cumulative other comprehensive income – end	70	97
Total deficit and cumulative other comprehensive income	(127,941)	(121,346)
Shareholders' Equity – end	295,027	188,335

Additional information is presented in Note 3.

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

Consolidated financial statements

Three-month period ended March 31, 2010

(Unaudited)

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

Consolidated statements of Cash Flows	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
	\$	\$
Operating activities		
Net (loss) earnings	(499)	3,019
Items not affecting cash:		
Depreciation of property, plant and equipment	2,936	2,890
Amortization of intangible assets	2,601	2,447
Amortization of financing fees	571	-
Accretion expense on asset retirement obligations	20	19
Stock-based compensation	2	-
Unrealized net loss (gain) on derivative financial instruments	2,040	(574)
Future income taxes	(897)	(74)
Unrealized foreign exchange (gain) loss	(42)	97
Amortization of reevaluation of long-term debt	(37)	-
Expense related to royalty agreement upon share exchange arrangement (Note 3)	983	-
Effect of exchange rate fluctuations	(33)	49
	7,645	7,873
Changes in non-cash operating working capital items (Note 7)	(4,890)	435
	2,755	8,308
Financing activities		
Distributions paid to former unitholders	(9,688)	(7,348)
Increase of long-term debt	73,920	-
Repayment of bank loan	(12,900)	-
Repayment of long-term debt	(119,806)	(624)
Deferred financing fees	(1,615)	-
	(70,089)	(7,972)
Investing activities		
Additions to property, plant and equipment	(196)	(1,610)
Net cash acquired on business acquisition (Note 3)	87,081	-
Net funds withdrawn from the levelization reserve	205	397
Net funds withdrawn from wind/hydro reserve	986	-
Investments in majors repairs reserve accounts	(245)	(245)
	87,831	(1,458)
Translation adjustment on cash and cash equivalents	(88)	11
Net increase (decrease) in cash and cash equivalents	20,409	(1,111)
Cash and cash equivalents, beginning of period	9,352	8,637
Cash and cash equivalents, end of period	29,761	7,526
<i>Cash and cash equivalents is comprised of:</i>		
Cash	18,421	3,166
Short-term investments	11,340	4,360
	29,761	7,526

Additional information is presented in Note 7.

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

Notes to the consolidated financial statements

(Unaudited)

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

1. Description of business

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

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

Revenues for the first quarter of 2010 include a complete quarter for the Fund's revenues and two days of the Corporation's revenues from the assets acquired.

2. Significant accounting policies

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

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

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

Consolidation of variable interest entities

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

Government assistance

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

Notes to the consolidated financial statements

(Unaudited)

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

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

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

Reserve accounts

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

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

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

Property, plant and equipment

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

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

Intangible assets

Intangible assets consist of various permits, licenses and agreements. They are recorded at cost. Financing costs related to the construction period are capitalized. They are amortized using the straight-line method over a period extending from 20 to 40 years ending on the maturity date of the permits, licenses or agreements of each facility. Intangible assets are related to four categories, being hydroelectric facilities, hydroelectric facilities under construction, wind farm facilities and wind farm facilities under construction. Intangible assets related to facilities under construction are not amortized until the commissioning date of the related facilities. Intangible assets also include the cost of an extended warranty for wind farm equipments; these costs are amortize over the three-year warranty period.

Notes to the consolidated financial statements

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

Project development costs

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

Goodwill

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

Income taxes

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

Earnings per share

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

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

Notes to the consolidated financial statements

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

Stock-based compensation

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

3. Share exchange arrangement

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

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

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

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

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

The total estimated purchase price has been calculated as follows:

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

Notes to the consolidated financial statements

(Unaudited)

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

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

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

The estimated transaction expenses relating to the combination totalling approximately \$ 6,000 have been recognized as cost of the business combination in accordance with Section 1581 of the CICA Handbook. As at March 31, 2010, an amount of \$ 4,687 remains payable. Net cash acquired amounts to \$ 87,081.

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

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

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

The portion of the unit capital of the Fund, not held by the Corporation before the transaction amounts to \$ 259,925. This amount is 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 are eliminated upon consolidation of the balance sheet as the transaction is accounted for as a reverse take over of the Corporation by the Fund.

The outstanding 200,000 warrants of the Corporation remain outstanding but are adjusted to their fair values which is estimated to be nil. The 705,000 stock options of the Corporation that are vested are adjusted to their fair values.

For the three-month period ended March 31, 2010, the Corporation recorded an expense related to royalty agreement upon share exchange arrangement of \$ 983 due to the deemed cancellation of a contract resulting from the Combination. As per Canadian GAAP, the Fund had to expense the engagement it had with Innergex prior to the combination since 2005. In that year, a subsidiary of the Corporation, sold the Rutherford Creek hydroelectric facility to the Fund. Rutherford Creek Power, Limited Partnership, which owns the assets, then agreed, following the expiry or termination of the Rutherford Creek PPA in 2024, to pay royalties to the subsidiary provided certain revenue thresholds are reached. This expense had no cash impact on the Corporation's results as it was considered to be paid for by the issuance of shares.

Notes to the consolidated financial statements

(Unaudited)

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

4. Long-term debt

	March 31, 2010 \$	December 31, 2009 \$
Operating facility (a)		
Prime-rate advances renewable until March 2013 (rate of 3.75 %)	7,200	-
US base-rate advances, US\$13,900 renewable until March 2013 (rate of 5.25 %)	14,120	-
BDS Facility (b)		
Prime rate advances renewable until March 2013 (rate of 3.75 %)	52,600	-
Facility 1		
Prime rate advances renewable until May 2013 (rate of 2.38%)	-	93
Bankers' acceptances renewable until May 2013 (rate of 1.52%)	-	51,200
LIBOR advances, US\$5,000 renewable until May 2013 (average rate of 1.38%)	-	5,255
Facility 2		
LIBOR advances, US\$8,873 renewable until May 2013 (average rate of 1.38 %)	-	9,325
Facility 3		
Bankers' acceptances renewable until May 2013 (rate of 1.52 %)	-	52,600
Term loans		
Hydro-Windsor, 8.25% fixed rate term loan maturing in 2016;	6,408	6,590
Rutherford Creek, 6.88% fixed rate term loan maturing in 2024;	50,000	50,000
AAV, floating-rate term loan maturing in 2026, (rate of 1.53%; 1.44% in 2009);	49,535	50,067
Glen Miller, floating-rate term loan maturing in 2013, (rate of 1.87 %) (c);	15,250	-
Umbata Falls, floating-rate term loan maturing in 2014, (rate of 1.74 %) (d);	24,677	-
CAR, floating-rate term loan maturing in 2013, (rate of 2.11 %) (e);	50,661	-
Ashlu Creek, floating-rate construction loan maturing in 2025, (rate of 1.74 %) (f);	95,587	-
Fitzsimmons Creek, floating-rate construction loan maturing in 2015, (rate of 4.58 %) (g);	19,616	-
Kwoiek Creek, 20 % fixed rate term loan during development phase and 14 % fixed rate during construction and operation phase (h)	150	-
	385,804	225,130
Deferred financing costs	(1,612)	(569)
	384,192	224,561
Current portion of long-term debt	(8,490)	(2,758)
	375,702	221,803

Notes to the consolidated financial statements

(Unaudited)

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

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

(a) Operating facility

A \$ 117,400 revolving credit facility secured by a first-ranking hypothec on the Corporation's assets and by various security interests granted by some of its subsidiaries. The facility consists of a 3-year loan and is not amortized. Advances are made in the form of bankers' acceptances ("BA"), prime-rate advances, US base-rate advances, LIBOR advances or letters of credit. In all cases, interest is calculated at the prevailing benchmark rate, plus an additional margin based on the Corporation's ratio of consolidated senior debt to adjusted EBITDA. As at March 31, 2010, \$ 7,200 and \$ 14,120 (US\$ 13,900) were due under this facility and an amount of \$ 11,646 was used for the issuance of letters of credit. Thus the unused and available portion of the Operating Facility amounted to \$ 84,434. The net book value of the assets of the Corporation and subsidiaries given as securities under the operating facility totals approximately \$ 235,645.

(b) BDS Facility

A \$ 52,600 term loan guaranteed by a security interest granted by the Corporation, and on its 38 % interest in the BDS wind farm. The facility consists of a 3-year loan and is not amortized. Advances are made in the form of BA or prime-rate advances. In all cases, interest is calculated at the prevailing benchmark rate, plus an additional margin based on the Corporation's ratio of consolidated senior debt to adjusted EBITDA. As at March 31, 2010, this facility was fully drawn. The net book value of the 38 % interest as at March 31, 2010, is approximately \$ 83,600.

(c) Glen Miller Power, Limited Partnership

The long-term debt relates to a loan made to provide long-term financing. The term loan consist of a 5-year term loan, amortized over a period of 68 quarters starting July 1, 2008 with a final maturity date on December 19, 2025. The loan bears interest at a rate per annum equal to the BA equivalent rate of 0.47 % plus 140 basis points for a total of 1.87 % as at March 31, 2010. The principal repayments for the next year will amount to \$ 1,000. On August 16, 2009, the agreement was amended to make available to Glen Miller Limited Partnership a letter of credit facility in an amount of \$ 160. As at March 31, 2010, the facility was totally used to secure one letter of credit.

The long-term debt is secured by a first-ranking security interest in the amount of \$ 20,400 on all the property and assets of Glen Miller Power, Limited Partnership and the equity interest in Glen Miller Power, Limited Partnership and its general partner. The net book value of the property and assets as at March 31, 2010 is approximately \$ 39,300.

(d) Umbata Falls Limited Partnership

A lender agreed to make available for the Umbata Falls hydroelectric facility a non-recourse construction loan in a principal amount of \$ 51,000 (the share of the Corporation is 49 %). The construction loan was converted into a term loan in the second quarter of 2009. The loan bears interest at a rate per annum equal to the BA equivalent rate of 0.54 % plus 120 basis points for a total of 1.74 % as at March 31, 2010. An amortization schedule, consisting in a 5-year term loan, amortized over a period of 100 quarters, was agreed with the lender and principal repayments started on September 30, 2009. Principal repayments for the next year will amount to \$ 901 (the share of the Corporation is 49 %).

The lender also agreed to make available, a letter of credit facility in a principal amount not exceeding \$ 500 until five years after completion, which is defined as beginning six months after commissioning. As at March 31, 2010, an amount of \$ 470 has been used to secure two letters of credit.

The security constituted by the security documents comprises a valid and perfect first-ranking charge and security interest upon all of the property and assets of Umbata Falls Limited Partnership and all the equity investment in Umbata Falls Limited Partnership and its general partner. As at March 31, 2010, the net book value of the property and assets of Umbata Falls Limited Partnership, totals approximately \$ 90,300 (the share of the Corporation is 49 %).

Notes to the consolidated financial statements

(Unaudited)

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

(e) Innergex CAR, L.P.

Lenders agreed to make available, for the Innergex CAR, L.P. wind power project, a non-recourse construction loan in a principal amount of \$ 53,400. The construction loan was converted into a term loan in the second quarter of 2009. The loan bear interest at a rate per annum equal to the BA equivalent rate of 0.54 %, plus an applicable margin of 160 basis points for a total of 2.14 % as at March 31, 2010. This debt was accounted for at its fair market value of \$ 50,661 as at March 29, 2010, for an effective interest rate of 2.11 %.

An amortization schedule, consisting in a 5-year term loan, amortized over a period of 74 quarters, was agreed with the lender and principal repayment started on December 31, 2008. The principal repayments for the next year will amount to \$ 2,597.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$ 833. As at March 31, 2010, an amount of \$ 832 has been used to secure one letter of credit.

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

As at March 31, 2010, the net book value of the property and assets of Innergex CAR, L.P. totals approximately \$ 84,900.

(f) Ashlu Creek Investments Limited Partnership

Lenders agreed to make available for the Ashlu Creek hydroelectric facility a non-recourse construction loan in a principal amount of up to but not exceeding \$ 110,000 of which \$ 100,400 have been drawn as at March 31, 2010. The loan matures 15 years following conversion of the construction loan into a term loan. The loan advances bear interest at a rate per annum equal to the BA equivalent rate of 0.52 % plus 100 basis points, for a total of 1.52 % as at March 31, 2010. This debt was accounted for at its fair market value of \$ 95,587 as at March 29, 2010 for an effective interest rate of 1.74 %.

The lenders also agreed to make available a letter of credit facility ("LC Facility"), on a revolving basis by way of letters of credit in the principal amount not exceeding \$ 3,000, until the final maturity date of the LC Facility, which is the fifteenth anniversary of the term conversion date as defined in the credit agreement. As at March 31, 2010 an amount of \$ 1,940 has been used to secure two letters of credit.

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

As at March 31, 2010, the net book value of the property and assets of Ashlu Creek Investments Limited Partnership, totals approximately \$ 177,600.

Notes to the consolidated financial statements

(Unaudited)

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

(g) Fitzsimmons Creek Hydro Limited Partnership

Lenders agreed to make available, for the Fitzsimmons Creek Hydro Limited Partnership project, a non recourse construction loan in a principal amount up to but not exceeding \$ 24,000. The loan matures five years after conversion of the construction loan into a term loan. As at March 31, 2010, \$ 17,100 was drawn. The loan advances bear interest at a rate per annum equal to the BA equivalent rate of 0.51 % plus an applicable margin of 450 basis points for a total of 5.01 % as at March 31, 2010. The debt was accounted for at its fair market value of \$ 19,616 as at March 29, 2010 for an effective interest rate of 4.58 %.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$ 750 until six months after commissioning ("completion") and thereafter in an amount not to exceed \$ 150 until five years after completion. As at March 31, 2010, an amount of \$ 543 has been used to secure two letters of credit.

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

As at March 31, 2010, the net book value of the property and assets of Fitzsimmons Creek Hydro Limited Partnership, which is under construction, totals approximately \$ 26,300.

(h) Kwoiek Creek Resources Limited Partnership

The Kwoiek Creek Resources Limited Partnership's long-term debt consists of a loan made by the partner of the Corporation in the Kwoiek Creek Project. As per the agreements related to the project, both partners can participate in the financing of the project. The Corporation can participate up to an amount of \$ 20,000 and its partner up to an amount of \$ 3,000. The loan bears interests at a rate of 20 % during the development phase and 14 % during the construction and operating phases. The Corporation loan made to Kwoiek Creek Resources Limited Partnership, which is eliminated in the consolidation process of the financial statements, amounts to \$ 8,041.

5. Convertible debentures

The convertible debentures were part of the assumed liabilities on the share exchange arrangement described in Note 3.

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

The debentures may not be redeemed by the Corporation on or before April 30, 2013 (except in certain limited circumstances following a change of control). After April 30, 2013 and prior to April 30, 2015, the debentures may be redeemed by the Corporation, in whole or in part from time to time, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is not less than 125 % of the Conversion Price. On or after April 30, 2015 and prior to the Maturity date, the debentures may be redeemed in whole or in part at the option of the Corporation at a price equal to their principal amount plus accrued and unpaid interest. Subject to required regulatory approval, the Corporation may, at its option, elect to satisfy its obligation to pay the principal amount of the debentures on redemption or at maturity, in whole or in part, through the issuance of freely tradable common shares upon prior notice, by delivering that number of common shares obtained by dividing the principal amount of the debentures by 95 % of the current market price. Any accrued or unpaid interest will be paid in cash.

Notes to the consolidated financial statements

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

The debentures are subordinated to all secured indebtedness of the Corporation.

	March 31, 2010	December 31, 2009
	\$	\$
Debt portion of convertible debentures, at fixed rate, 5.75 %, maturing in April, 2017, with a face value of \$ 80,500	79,222	-
Equity portion of convertible debentures	1,841	-

6. Shareholders' capital

Share capital

Authorized

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

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

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

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

	March 31, 2010		December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	(000's)	\$	(000's)	\$
Outstanding - beginning of period	-	-	-	-
Outstanding stock options assumed on the share exchange arrangement described in Note 3.	1,269	11	-	-
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding - end of period	1,269	11	-	-
Options exercisable - end of period	705	11	-	-

Notes to the consolidated financial statements

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

The following options were outstanding and exercisable as at March 31, 2010:

Outstanding		Exercisable		Year of maturity
Number of options (000's)	Exercise price \$	Number of options (000's)	Exercise price \$	
141	11	141	11	2010
1,128	11	564	11	2017
1,269		705		

The Corporation applies the fair value method of accounting for options granted to senior management, which is estimated using the Black-Scholes option-pricing model. An amount of \$ 2 (nil in 2009) was recorded as stock-based compensation costs and credited to contributed surplus of the Corporation to account for the options outstanding. The following assumptions were used to estimate the fair value, at the date of the share exchange arrangement of the options issued to grantees:

Risk-free interest rate	0.1 % to 2.7 %
Expected annual dividend	\$ 0.58
Expected life of options	0.1 to 4.7 years
Expected volatility	36 % to 40 %
Weighted average fair value per option	\$ 0.71

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

Warrants

The Corporation has 200,000 warrants, outstanding, entitling the holders to subscribe to up to 200,000 common shares. The warrants were assumed on the share exchange arrangement described in Note 3. The warrants are exercisable at a strike price of \$ 12.50 per warrant and will expire on August 29, 2010.

7. Additional information to the Consolidated Statements of Cash Flows

Changes in non-cash operating working capital items

	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
	\$	\$
Accounts receivable	413	473
Prepaid and others	254	2,061
Accounts payable and accrued liabilities	(5,557)	(2,099)
	(4,890)	435
<i>Additional information</i>		
Interest paid	3,402	2,870
Income taxes paid	849	71
<i>Non-cash transactions</i>		
Decrease of unpaid property, plant and equipment	156	1,015
Increase of unpaid transaction costs	4,016	-

Notes to the consolidated financial statements

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

8. Financial instruments

Interest rate risk

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

Face value of contracts reducing risk of interest rate fluctuations	Early termination option	March 31, 2010	December 31, 2009
		\$	\$
Interest rate swaps at rates varying from 3.96% to 4.09 %, expiring in June 2015	None	15,000	15,000
Interest rate swap, 4.27 %, expiring in November 2016	None	3,000	3,000
Interest rate swap, 4.41 %, expiring in June 2018	June 2013	30,000	30,000
Interest rate swap, 4.27 %, expiring in June 2018	June 2013	52,600	52,600
Interest rate swap, 4.93 %, amortized until March 2026	None	49,535	50,067
Interest rate swap, 3.45 %, amortized until March 2027	December 2013	49,834	-
Interest rate swap, 4.11 %, amortized until June 2034 (total of \$ 50,361, 49 % share)	None	24,677	-
Forward interest rate swap, 4.25 % until April 29, 2010 (See Note 12)	April 2010	110,000	-
		334,646	150,667

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

Swap agreements expiring in June 2018 and swap agreements expiring in March 2027 have a termination option exercisable by both parties in 2013.

9. Commitments

As at March 31, 2010, expected scheduling of commitments payment are:

Contractual obligations	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
2011	17,422	14,017	10,116	41,555
2012	17,582	13,812	10,541	41,935
2013	19,268	13,295	84,609	117,172
2014	30,728	51,150	6,527	88,405
2015	39,499	7,431	6,528	53,458
Thereafter	218,918	70,047	96,871	385,836
Total	343,417	169,752	215,192	728,361

Notes to the consolidated financial statements

(Unaudited)

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

10. Segment Information

Reportable sectors

The Corporation has three reportable segments: (a) hydroelectric generation (b) wind power generation and (c) site development. The site development segment was acquired on March 29, 2010.

The hydroelectric generation and the wind power generation segments sell electricity produced from hydroelectric and wind farm facilities to publicly owned utilities. The site development segment explores potential sites and develops them to the operational stage.

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

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

Notes to the consolidated financial statements

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

Reportable Segments	Hydroelectric Generation	Wind Power Generation	Site Development	Total
	\$	\$	\$	\$
Three-month period ended March 31, 2010				
Gross operating revenues from external clients	8,845	4,706	-	13,551
Expenses:				
Operating expenses	1,376	486	-	1,862
Stock-based compensation	-	-	2	2
General and administrative expenses	608	227	134	969
Prospective projects expenses	-	-	10	10
Earnings before interests, income taxes, depreciation and amortization and other items	6,861	3,993	(146)	10,708
Three-month period ended March 31, 2009				
Gross operating revenues from external clients	8,726	5,215	-	13,941
Expenses:				
Operating expenses	1,470	443	-	1,913
General and administrative expenses	677	261	-	938
Earnings before interests, income taxes, depreciation and amortization and other items	6,579	4,511	-	11,090
As at March 31, 2010				
Goodwill	8,269	-	-	8,269
Total assets	591,324	278,325	22,848	892,497
Acquisition of capital assets since the beginning of the year	14	26	-	40
As at December 31, 2009				
Goodwill	8,269	-	-	8,269
Total assets	330,157	177,984	-	508,141

11. Comparative figures

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

Notes to the consolidated financial statements

(Unaudited)

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

12. Subsequent events

Ashlu Creek Facility

On April 29, 2010, the Corporation settled a \$ 110,000 forward-starting amortizing interest rate swap. Concurrently, the Corporation entered into a \$ 110,000 forward-starting amortizing interest rate swap, thereby fixing the interest rate at 4.70 % starting on the effective date of September 30, 2010 until the end of the related long-term debt amortization schedule of June 2035. By entering into this swap transaction, the Corporation has eliminated its exposure to variable interest rates on this amount and has protected the project's economic value.

Ashlu Creek and Fitzsimmons Creek Facilities

On April 23, 2010, the Ashlu Creek and Fitzsimmons Creek facilities received their EcoLogo certification, thereby confirming that both facilities will receive incentive payments under the ecoENERGY Initiative of the Federal government. These payments represent 1¢ per KW-hr for the next ten years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

This Management's Discussion and Analysis ("MD&A") has been prepared as at May 10, 2010.

The purpose of this MD&A is to provide the reader with an overview of the financial position, operating results and cash flows of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the three-month period ended March 31, 2010.

This MD&A should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes for the financial quarter ended March 31, 2010, with the 2009 annual report of Innergex Power Income Fund (the "Fund") and the 2009 annual report of Innergex. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

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

STRATEGIC COMBINATION OF THE FUND AND INNERGEX

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

In accordance with Canadian GAAP, the results for the quarter ended March 31, 2010, are those of the Fund including Innergex's contribution for the last two days of the quarter. Also in accordance with Canadian GAAP and Canadian securities regulations, the historical results presented in this MD&A are those of the Fund.

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

The Combination resulted in the Fund's unitholders becoming Innergex shareholders as they agreed to exchange their units for Innergex shares based on an exchange ratio of 1.460 shares for each unit. 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.

For more information about the Combination, please refer to the "Arrangement Agreement" dated January 31, 2010, and the joint management information circular with respect to the Combination dated February 17, 2010, (the "Joint Circular") available on Innergex's web site at www.innergex.com or on the SEDAR web site at www.sedar.com.

ESTABLISHMENT, MAINTENANCE AND EFFECTIVENESS OF DC&P AND ICFR

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

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

In accordance with *Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have evaluated the effectiveness of the Corporation's DC&P and ICFR for the three-month period ended March 31, 2010, and have concluded that they were effective and that there were no material weakness relating to the DC&P and ICFR. During the period beginning January 1, 2010, and ended March 31, 2010, there was no change to the ICFR that has materially affected, or is reasonably likely to affect, the ICFR.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

FORWARD-LOOKING STATEMENTS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

OVERVIEW

General

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

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

- 17 operating facilities with an aggregate net installed capacity of 325.5 MW (gross 537.8 MW). These consist of 14 hydroelectric facilities and three wind farms, with aggregate net installed capacities of 204.1 MW (gross 218.3 MW) and 121.4 MW (gross 319.5 MW) respectively. Commissioned between November 1994 and January 2010, the facilities have a weighted average age of approximately 5.2 years. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 17.7 years;
- seven development projects with an aggregate net installed capacity of 202.9 MW (gross 432.9 MW) for which PPAs with public utilities have been secured. Construction is expected to begin on four of these projects in 2010 and on the remaining three projects in 2013 and 2014. The projects are expected to reach the commercial operation stage between 2011 and 2016; and
- a net capacity of more than 1,900 MW (gross 2,000 MW) in prospective projects that are at various stages of development.

Portfolio of Assets

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010



Operating Facilities	Development Projects	Prospective Projects
Hydro <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% Horseshoe Bend, Idaho, USA (9.5 MW) - 100% Rutherford Creek, BC (49.9 MW) - 100% Ashlu Creek, BC (49.9 MW) - 66% Fitzsimmons Creek, BC (7.5 MW) Wind <ul style="list-style-type: none"> - 38% Baie-des-Sables, QC (109.5 MW) - 38% L'Anse-à-Vallée, QC (100.5 MW) - 38% Carleton, QC (109.5 MW) 	Hydro <ul style="list-style-type: none"> - 50% Kwoiek Creek, BC (49.9 MW) - 66% North Creek, BC (16.0 MW) - 66% Boulder Creek, BC (23.0 MW) - 66% Upper Lillooet, BC (74.0 MW) Wind <ul style="list-style-type: none"> - 38% Montagne-Sèche, QC (58.5 MW) - 38% Gros-Morne (Phase I), QC (100.5 MW) - 38% Gros-Morne (Phase II), QC (111.0 MW) 	Hydro <ul style="list-style-type: none"> - 48% Québec Projects (42.0 MW) - 100% BC Projects (19.8 MW) - 66% BC Projects (132.0 MW) Wind <ul style="list-style-type: none"> - 100% Québec Projects (836.0 MW) - 70% Québec Projects - Community (100.0 MW) - 100% Ontario Projects - FIT (440.0 MW) - 49% Ontario Projects - FIT (25.3 MW) - 100% BC Projects (475.0 MW)
Hydro Gross capacity: 218.3 MW Net capacity ¹ : 204.1 MW Wind Gross capacity: 319.5 MW Net capacity ¹ : 121.4 MW Total Gross capacity: 537.8 MW Net capacity ¹ : 325.5 MW	162.9 MW 100.3 MW 270.0 MW 102.6 MW 432.9 MW 202.9 MW	193.8 MW 128.0 MW 1,876.3 MW 1,833.4 MW 2,070.1 MW 1,961.4 MW

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

BUSINESS STRATEGY

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

ANNUAL DIVIDEND POLICY

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

KEY PERFORMANCE INDICATORS

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

SEASONALITY

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

Operating Facilities – Estimated Long-Term Averages								
Project name	Electricity purchaser	PPA expiry	Net installed capacity (MW)	Average long-term production (GW-hr) (Net interest)				
				Q1	Q2	Q3	Q4	Total
HYDRO								
St-Paulin	Hydro-Québec	2014 ¹	8.0	7.4	15.5	8.0	10.1	41.1
Windsor	Hydro-Québec	2016 ¹	5.5	9.7	7.8	5.6	7.9	31.0
Chaudière	Hydro-Québec	2019 ¹	24.0	26.0	40.8	17.6	32.2	116.7
Portneuf-1	Hydro-Québec	2021 ¹	8.0	4.3	14.9	11.5	10.1	40.8
Portneuf-2	Hydro-Québec	2021 ¹	9.9	10.0	20.1	19.3	19.1	68.5
Portneuf-3	Hydro-Québec	2021 ¹	8.0	4.4	15.6	11.9	10.4	42.4
Montmagny	Hydro-Québec	2021 ¹	2.1	1.4	3.2	1.0	2.3	8.0
Glen Miller	OPA ²	2025	8.0	13.5	11.9	4.5	11.7	41.6
Umbata Falls	OPA ²	2028	11.3	8.3	18.5	10.4	16.2	53.5
Batawa	OEFC ³	2029	5.0	10.8	8.9	3.7	9.5	32.9
Horseshoe Bend	IPC ⁴	2030	9.5	7.9	17.0	16.7	5.2	46.8
Rutherford Creek	BC Hydro ⁵	2024	49.9	11.0	63.7	80.0	25.3	180.0
Ashlu Creek	BC Hydro ⁵	2039	49.9	26.9	92.0	95.1	51.0	265.0
Fitzsimmons Creek	BC Hydro ⁵	2050	5.0	2.2	7.3	8.9	3.6	22.0
Subtotal			204.1	144.0	337.2	294.4	214.7	990.2
WIND								
Baie-des-Sables (“BDS”)	Hydro-Québec	2026	41.6	35.7	25.0	18.6	34.1	113.4
L’Anse-à-Valleau (“AAV”)	Hydro-Québec	2027	38.2	38.2	22.9	16.5	35.7	113.2
Carleton (“CAR”)	Hydro-Québec	2028	41.6	38.1	28.2	24.1	39.0	129.4
Subtotal			121.4	112.0	76.0	59.2	108.8	356.0
Total		17.7 years ⁶	325.5	255.9	413.2	353.7	323.4	1,346.2

1. These PPAs are renewable at the Corporation's option for an additional term of 20 to 25 years.

2. Ontario Power Authority.

3. Ontario Electricity Financial Corporation.

4. Idaho Power Company.

5. British Columbia Hydro and Power Authority.

6. Remaining weighted average life of PPAs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

QUARTERLY UPDATE

Highlights	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
Power generated (MW-hr)	157,666	163,912
Gross operating revenues	\$ 13,551	\$ 13,941
EBITDA	\$ 10,708	\$ 11,090
Net (loss) earnings	\$ (499)	\$ 3,019
Adjusted cash flows from operating activities	\$ 8,591	\$ 8,025
Adjusted cash flows from operating activities (\$ per share - basic)	\$ 0.20	\$ 0.19
Distributions declared	\$ 7,238	\$ 7,349
Distributions declared (\$ per share)	\$ 0.17	\$ 0.17

Adjusted Net Earnings

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

Adjusted Net Earnings	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
Net (loss) earnings	\$ (499)	\$ 3,019
Add (deduct):		
Non-cash expense related to royalty agreement	983	-
Unrealized net loss (gain) on derivative financial instruments	2,040	(574)
Unrealized foreign exchange (gain) loss	(42)	97
Associated future income taxes	(804)	(86)
Adjusted net earnings	\$ 1,678	\$ 2,456
Adjusted net earnings (\$ per share - basic)	\$ 0.04	\$ 0.06

Financing Activities

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Construction Activities

During the first quarter of 2010, Innergex completed the construction of the 7.5 MW Fitzsimmons Creek hydroelectric facility located in British Columbia. The facility began commercial operations on January 26, 2010, ahead of its original scheduled date of Q4-2010.

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

Operating Facilities Commissioned Over the Last Twelve Months								
Project name and location	Installed capacity (MW)	Estimated long-term average production (GW-hr)	Total construction costs		Commercial in-service date ("COD")		Expected year-one	
			Estimated (\$M)	Actual as at Mar. 31, 2010 (\$M)	Original estimate	Actual	Revenues (\$M)	EBITDA (\$M)
<i>HYDRO</i>								
Ashlu Creek, BC	49.9	265.0	138.0	136.6	Q2 2009	Q4 2009	18.4	15.7
Fitzsimmons Creek, BC ¹	7.5	33.0	33.2	31.9	Q4 2010	Q1 2010	3.2	2.4

1. The Corporation owns 66 ⅔% of this project

Development Projects

The Corporation owns seven Development Projects. Of these, the three wind farms are ready for construction, the Kwoiek Creek hydroelectric project is completing the permit phase and the remaining three hydroelectric projects are beginning the permit phase. The table below provides an overview of these Development Projects.

Development Projects					
Project name	Location	Installed capacity (MW)	Estimated total construction costs (\$M)	Total construction costs as at Mar 31, 2010 (\$M)	Expected commercial in-service date
<i>HYDRO</i>					
Kwoiek Creek ¹	BC	49.9	152.1	10.7	2012
North Creek ²	BC	16.0	71.0	0.3	2015
Upper Lillooet ²	BC	74.0	260.0	0.7	2016
Boulder Creek ²	BC	23.0	84.0	0.1	2016
<i>WIND</i>					
Montagne-Sèche ³	QC	58.5	103.0	1.4 ⁴	2011
Gros-Morne – Phase I ³	QC	100.5	348.5	5.0 ⁴	2011
Gros-Morne – Phase II ³	QC	111.0	for both phases	for both phases	2012

1. The Corporation owns 50% of this project.

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

3. The Corporation owns 38% of this project.

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

Upper Lillooet, Boulder Creek and North Creek

On March 11, 2010, BC Hydro announced that the Upper Lillooet, Boulder Creek and North Creek hydroelectric projects, totalling 113 MW and submitted under the 2008 BC Hydro Clean Power Call RFP (the "2008 BC CPC") had been selected for PPA awards, subject to the British Columbia Utilities Commission's approval. The PPAs will allow the Corporation to enter the development phase, which involves consulting with stakeholders and obtaining the relevant permits. The Corporation expects North Creek to start commercial operation in 2015 and Boulder Creek and Upper Lillooet to start commercial operation in 2016. The Corporation owns a 66 ⅔% ownership interest in these three new Development Projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Montagne-Sèche and Gros-Morne, Phase I and II

The Corporation is currently in the process of securing long-term debt financing for these projects. In the last few weeks, the Corporation has received indications from interested lenders and is currently finalising its evaluation process. In the meantime, a limited notice to proceed for an amount not exceeding \$10.0 million, of which \$3.8 million represents the Corporation's share, has been granted to the contractors in order to begin construction. Innergex expects the 58.5 MW Montagne-Sèche and 100.5 MW Gros-Morne – Phase I projects to be completed by December 1, 2011, and the Gros-Morne – Phase II project to be completed by December 1, 2012.

Prospective Projects

All of the Prospective Projects, with a combined potential net installed capacity of more than 1,900 MW (gross 2,000 MW), are in the preliminary development stage. Some Prospective Projects are targeted toward specific future RFPs and others will be available for future RFPs yet to be announced. There is no certainty that any Prospective Project will be realized.

Innergex intends to submit several wind projects to the Hydro-Québec Distribution 250 MW Community Wind RFP before the July 6, 2010, deadline. PPA awards are expected before the end of 2010.

Additional information about the Corporation's facilities and projects can be found in the Corporation's Annual Information Form for the year ended December 31, 2009, and in the Joint Circular, both available on Innergex's web site at www.innergex.com or on the SEDAR web site at www.sedar.com.

OPERATING RESULTS

The Corporation's operating results for the three-month period ended March 31, 2010, are compared to operating results for the same period in 2009. As a result of the Combination, per Canadian GAAP, only the last two days of operations of the Pre-Combination Innergex are accounted for in the Corporation's results for the first quarter of 2010.

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

Production

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Production	Operating period January 1 to March 31, 2010		Operating period January 1 to March 31, 2009	
	Production (MW-hr)	Long-term average (MW-hr)	Production (MW-hr)	Long-term average (MW-hr)
<i>HYDRO</i>				
Saint-Paulin	10,464	7,434	11,170	7,434
Windsor	11,016	9,730	10,440	9,730
Chaudière	30,173	25,999	36,806	25,999
Portneuf-1	4,462	4,290	4,431	4,290
Portneuf-2	10,443	10,033	10,314	10,033
Portneuf-3	4,577	4,398	4,482	4,398
Montmagny	1,805	1,433	1,651	1,433
Glen Miller ¹	13,459	13,500	14,986	13,500
Umbata Falls ^{1,2}	8,633	8,901	6,400	8,901
Batawa	11,500	10,803	12,150	10,803
Horseshoe Bend	3,718	7,927	5,479	7,927
Rutherford Creek	9,194	11,000	543	11,000
Ashlu Creek ¹	25,776	26,898	-	-
Fitzsimmons Creek ^{3,4}	102	944	-	-
Subtotal	145,322	143,290	118,852	115,448
<i>WIND</i>				
Baie-des-Sables ⁵	29,736	35,697	34,320	35,697
L'Anse-à-Valleau ⁵	29,331	38,185	32,126	38,185
Carleton ^{1,5}	35,891	38,085	38,697	38,085
Subtotal	94,958	111,967	105,143	111,967
Total	240,280	255,257	223,995	227,415

1. Adjusted to include a full quarter.

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

3. Representing the Corporation's 66% interest in this facility.

4. Adjusted for the period during which the facility was in commercial operation as commissioning occurred during the first quarter of 2010.

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

The Corporation's facilities produced 240,280 MW-hr in the first quarter of 2010, 6% less than the long-term average of 255,257 MW-hr. This production level is due to favourable hydrologic conditions at the Saint-Paulin, Windsor, Chaudière, Montmagny and Batawa facilities, which were more than offset by:

- lower-than-anticipated hydrologic conditions at the Horseshoe Bend and Rutherford Creek facilities;
- the production from the Ashlu Creek facility which was only 4% below the long-term average despite the tunnel inspection and subsequent improvement work which necessitated a shutdown from February 28, 2010, to April 17, 2010;
- lower-than-anticipated wind conditions at the BDS and AAV wind farms;
- a five-day shutdown of the AAV and CAR wind farms in January 2010 caused by ice accumulation on the Hydro-Québec transmission line, which required action by Hydro-Québec.

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

The overall performance of the Corporation's facilities for the three months ended March 31, 2010, demonstrates the benefits of geographic diversification and the complementarity of hydroelectric and wind power generation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Operating Results	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
Gross operating revenues	\$ 13,551	\$ 13,941
Operating expenses	1,862	1,913
Stock-based compensation	2	-
General and administrative expenses	969	938
Prospective projects expenses	10	-
EBITDA	\$ 10,708	\$ 11,090
Interest on long-term debt and convertible debentures	3,754	3,337
Expense related to royalty agreement	983	-
Other net (revenues) and expenses	(61)	2
Depreciation and amortization	5,537	5,337
Unrealized net loss (gain) on derivative financial instruments	2,040	(574)
Unrealized foreign exchange (gain) loss	(42)	97
Recovery of income taxes	(1,004)	(128)
Net (loss) earnings	\$ (499)	\$ 3,019

Revenues

The Corporation recorded gross operating revenues of \$13.6 million in the first quarter of 2010 (\$13.9 million in 2009). This performance is due mainly to lower production (negative impact of \$0.4 million). As specified above, revenues for the first quarter of 2010 include revenues from the assets of the Pre-Combination Innergex for the last two days of the month of March 2010, representing \$0.1 million.

Expenses

Operating expenses consist primarily of the operators' salaries, water rights, royalties, insurance premiums, property taxes, maintenance and repairs. In the first quarter of 2010, the Corporation recorded \$1.9 million in operating expenses related to the operation of the power producing facilities (idem in 2009). This situation was expected as the Corporation operated the same number of facilities during both periods except for the last two days of March 2010.

Stock-based compensation relates to the amortization, over the remaining 20-month vesting period, of the fair value of options granted concurrently with the Initial Public Offering of the Pre-Combination Innergex in December 2007. Since the results from the Pre-Combination Innergex are included in the quarter's results for the last two days of the month of March 2010, non-cash stock-based compensation was not material in the first quarter of 2010 (nil in 2009).

General and administrative expenses totalled \$1.0 million for the three-month period ended March 31, 2010 (\$0.9 million in 2009).

Prospective project expenses include the costs incurred for the development of Prospective Projects. Prior to the Combination, such expenses were not incurred. Accordingly, prospective projects expenses were not material in the first quarter of 2010 (nil in 2009).

Interest on Long-Term Debt and Convertible Debentures

The Corporation incurred \$3.8 million in interest expenses in the first quarter of 2010 as compared to \$3.3 million in the corresponding quarter of 2009. This increase is due to the Convertible Debentures and to the \$0.6 million writeoff of deferred financial costs due to the refinancing of the Fund's bank credit facility, partially offset by a lower level of indebtedness.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Expense Related to Royalty Agreement

For the three-month period ended March 31, 2010, the Corporation recorded an expense of \$1.0 million (nil in 2009) due to the deemed cancellation of a contract resulting from the Combination. As per Canadian GAAP, the Fund had to expense the engagement it had with the Pre-Combination Innergex since 2005. In that year, a subsidiary of the Corporation sold the Rutherford Creek hydroelectric facility to the Fund. Rutherford Creek Power, Limited Partnership, which owns the assets, then agreed, following the expiry or termination of the Rutherford Creek PPA in 2024, to pay royalties to that subsidiary provided certain revenue thresholds are reached. This expense had no cash impact on the Corporation's results as it was considered to be paid for by the issuance of shares.

Derivative Financial Instruments

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

The Corporation recorded a \$2.0 million unrealized net loss on derivative financial instruments in the first quarter of 2010 (unrealized net gain of \$0.6 million in 2009) due mainly to the decrease in benchmark interest rates for long-term maturities since the end of 2009. This loss had no cash impact on the Corporation's results.

Depreciation and Amortization

For the three-month period ended March 31, 2010, depreciation and amortization expenses totalled \$5.5 million (\$5.3 million in 2009). The difference is attributable mainly to the amortization of the extended warranty of the AAV wind farm, which became effective in December 2009.

Provision for Income Taxes

For the three-month period ended March 31, 2010, Innergex recorded a total income tax recovery of \$1.0 million (\$0.1 million in 2009). Prior to the Combination, the Fund's income trust structure minimized income taxes. As a result of the Combination and the Fund's conversion to a corporation, Innergex will now be liable for income taxes but it was able to recognize future income tax assets on derivative financial instruments. The Corporation will be able to take advantage of the Pre-Combination Innergex's large pool of tax basis and the resulting substantial available unused capital cost allowance to minimize current income taxes.

Net Earnings

For the three-month period ended March 31, 2010, the Corporation recorded a net loss and comprehensive loss of \$0.5 million (basic and diluted net loss of \$0.01 per share). For the corresponding period of 2009, Innergex recorded net earnings and comprehensive earnings of \$3.0 million (basic and diluted net earnings of \$0.07 per share). This \$3.5 million variation is attributable mainly to:

- a \$1.0 million expense related to royalty agreement;
- a \$2.6 million negative variation in the fair market value of derivative financial instruments;
- a \$0.4 million decrease in revenues,
- a \$0.4 million increase in interest on long-term debt.

These were partially offset by a \$0.9 million variation in income tax recovery.

The basic and diluted per-share figures for the period ended March 31, 2010, are based on a weighted average number of 43,299,198 shares outstanding. Stock options and warrants were non-dilutive during the period concerned, as the average market price of the Corporation's share was below the strike price. Convertible Debentures were also non-dilutive. For the period ended March 31, 2009, per-share figures were based on a weighted average number of 42,930,243 shares outstanding. No Convertible Debentures, options or warrants were outstanding during that period of 2009.

As at March 31, 2010, the Corporation had a total of 59,532,606 common shares, 80,500 Convertible Debentures, 1,269,000 stock options and 200,000 warrants outstanding. As at December 31, 2009, it had 42,930,243 common shares outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

For the period ended March 31, 2010, cash flows generated by operating activities totalled \$2.8 million (\$8.3 million in 2009). This \$5.5 million difference is due primarily to the \$0.4 million decline in revenues and to a \$5.3 million decrease in the variation of non-cash working capital items. The latter stems mainly from the negative impacts from a lower decrease in prepaid and others (\$1.8 million) and a larger decrease in accounts payable and accrued liabilities (\$3.5 million) when compared to the first quarter of 2009.

Cash Flows from Financing Activities

Cash flows used by financing activities totalled \$70.1 million in the first quarter of 2010 (use of \$8.0 million in 2009). This results from a \$47.5 million net repayment in long-term debt (\$0.6 million in 2009), the \$12.9 million repayment of the bank loan (nil in 2009) and \$9.7 million in distributions paid to former unitholders (\$7.3 million in 2009).

The \$47.5 million decrease in long-term debt (net of deferred financing fees) stems from the Combination and the refinancing of the Fund's bank credit facility and facilities 1, 2 and 3 and of the Pre-Combination Innergex's revolving credit facility. For more details about this refinancing, refer to the "Use of Financing Proceeds" and "Long-Term Debt" sections of this MD&A.

Cash Flows from Investing Activities

The Corporation's cash flows from investing activities for the quarter ended March 31, 2010, represented total net cash inflows of \$87.8 million (outflows of \$1.5 million in 2009). Cash acquired concurrently with the Combination accounted for an \$87.1 million inflow, while net withdrawals from the reserves accounted for a \$0.9 million inflow (\$0.2 million in 2009) and additions to property, plant and equipment for a \$0.2 million outflow (\$1.6 million in 2009).

Cash and Cash Equivalents

The Corporation generated \$20.4 million in cash and cash equivalents in the first quarter of 2010 (use of \$1.1 million in 2009), mainly as a result of the Combination.

As at March 31, 2010, the Corporation had cash and cash equivalents amounting to \$29.8 million. As at December 31, 2009, it reported cash and cash equivalents of \$9.4 million.

Use of Financing Proceeds

In the first quarter of 2010, as part of the Combination, the Corporation refinanced the Fund's bank credit facility and facilities 1, 2 and 3 totalling \$133.9 million (\$119.8 million drawn) and cancelled its \$40.0 million revolving credit facility (\$12.9 million drawn) by putting in place a \$117.4 million revolving credit facility (the "Operating Facility") and a \$52.6 million term loan (the "BDS Facility"), for a total availability of \$170.0 million. As the Corporation used the net cash acquired from the Pre-Combination Innergex to reduce drawings and pay \$1.6 million in financing and issuance fees, \$73.9 million of this available amount was drawn as at March 31, 2010. In the three-month period ended March 31, 2009, the Corporation did not borrow new amounts or issue capital.

Use of Financing Proceeds	For the three-month period ended March 31, 2010	For the three-month period ended March 31, 2009
Proceeds from issuance of long-term debt	\$ 73,920	\$ -
Financing proceeds	\$ 73,920	\$ -
Business acquisition, net of cash acquired:		
Pre-Combination Innergex	\$ 87,081	\$ -
Refinancing of long-term debt	(119,806)	-
Financing and issuance fees	(1,615)	-
Cancellation of revolving credit facility	(12,900)	-
Use of financing proceeds	\$ (47,240)	\$ -
Contribution to (reduction of) working capital	\$ 26,680	\$ -

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

FINANCIAL POSITION

Assets

As at March 31, 2010, the Corporation had \$892.5 million in total assets (\$508.1 million as at December 31, 2009). This increase results from the Combination. The following items were the most affected by the Combination:

- property, plant and equipment increased from \$334.2 million to \$600.1 million; and
- intangible assets increased from \$119.4 million to \$185.8 million.

Working Capital

As at the end of the first quarter of 2010, working capital was negative at \$4.2 million with a working capital ratio of 0.92:1.00. Excluding the \$8.9 million negative market value of derivative financial instruments, working capital was positive at \$4.7 million with an adjusted working capital ratio of 1.11:1.00. As at the end of 2009, working capital was negative at \$0.7 million with a working capital ratio of 0.97:1. Excluding the \$5.4 million negative market value of derivative financial instruments, working capital was positive at \$4.7 million with an adjusted working capital ratio of 1.32:1.00. The decrease over the last three months stems mainly from an increase in cash and cash equivalents due to the issuance of the Convertible Debentures, which was offset by increases in accounts payable and accrued liabilities and in the current portion of the long-term debt resulting from the Combination.

Given these ratios, the Corporation considers its current level of working capital to be sufficient to meet its needs. The Corporation can also use its Operating Facility. As at March 31, 2010, \$7.2 million and US\$13.9 million of this credit facility had been drawn as cash advances and \$11.6 million had been used for issuing letters of credit. The unused and available portion of the Operating Facility was therefore \$84.4 million as at that date.

Accounts receivable increased from \$6.2 million as at December 31, 2009, to \$9.8 million as at March 31, 2010, as a result of the Combination.

Accounts payable and accrued liabilities increased from \$9.6 million as at December 31, 2009, to \$32.1 million as at the end of the first quarter of 2010 as a result of the Combination. They are comprised mainly of trade payables and holdbacks related to, among other things, the construction of the Ashlu Creek and Fitzsimmons Creek projects and completion of the Carleton wind farm. As at March 31, 2010, it also included \$11.6 million related to the settlement of the Ashlu Creek bond forwards.

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

The current portion of long-term debt totalling \$8.5 million relates to the AAV, Hydro-Windsor, Glen Miller, Umbata Falls, Carleton, Ashlu Creek and Fitzsimmons Creek credit facilities.

Reserve Accounts

Reserve Accounts Breakdown	March 31, 2010	December 31, 2009
Levelization reserve	\$ 859	\$ 1,064
Hydrology/wind power reserve	13,488	10,598
Major maintenance reserve	4,227	3,728
Total	\$ 18,574	\$ 15,389

The Corporation holds three types of reserve accounts designed to help ensure its stability. The first is the Levelization reserve, which was established to level the monetary contribution from the power plants in order to make distributions. The second is the Hydrology/wind power reserve established at the start of commercial operations at a facility to compensate for the variability of cash flows related to fluctuations in hydrology or wind conditions or other unpredictable events. The amounts in this reserve are expected to vary from quarter to quarter according to the seasonality of cash flows. The third 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 availability of funds in the Hydrology/wind power and Major maintenance reserve accounts may be restricted by credit agreements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Property, Plant and Equipment

Property, plant and equipment are comprised mainly of hydroelectric and wind farm projects that are either in operation or under construction. They are recorded at cost and depreciated using the straight-line method, based on their estimated useful lives upon commissioning. The Corporation had \$600.1 million in property, plant and equipment as at March 31, 2010, compared with \$334.2 million as at December 31, 2009. This increase stems from the Combination.

Intangible Assets

Intangible assets consist of various permits, licences and agreements. They also include the extended warranty for the BDS, AAV and CAR wind farm turbines. The Corporation reported \$185.8 million in intangible assets as at March 31, 2010, an increase from the \$119.4 million reported as at December 31, 2009; this increase results from the Combination. Intangible assets, excluding \$4.7 million related to the wind farms' extended warranty, are amortized using the straight-line method over 20- to 40-year periods that commence when the related project is commissioned. The wind farms' extended warranty is amortized using the straight-line method over the three-year extended warranty period.

Project Development Costs

Project development costs are the costs incurred to acquire and develop Development Projects that have a PPA as well as the costs to acquire Prospective Projects. Depending on their nature, these costs are transferred either to property, plant and equipment or to intangible assets once the project reaches the construction phase. As at March 31, 2010, the Corporation had \$11.4 million in project development costs (nil as at December 31, 2009). Prior to the Combination, the Fund had no development activities and so did not incur any project development costs.

Goodwill

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Long-Term Debt

As at March 31, 2010, long-term debt was \$384.2 million (\$224.6 million as at December 31, 2009). The increase in long-term debt results from the Combination.

Long-Term Debt	March 31, 2010	December 31, 2009
Operating Facility, (i)		
Prime-rate advances renewable until March 2013 (rate of 3.75%)	\$ 7,200	\$ -
US base-rate advances, US\$13,900 renewable until March 2013 (rate of 5.25%)	14,120	-
BDS Facility, (ii)		
Prime-rate advances renewable until March 2013 (rate of 3.75%)	52,600	-
Facility 1		
Prime-rate advances renewable until May 2013 (rate of 2.38%)	-	93
Bankers' acceptances renewable until May 2013 (rate of 1.52%)	-	51,200
LIBOR advances, US\$5,000 renewable until May 2013 (average rate of 1.38%)	-	5,255
Facility 2		
LIBOR advances, US\$8,873 renewable until May 2013 (average rate of 1.38%)	-	9,325
Facility 3		
Bankers' acceptances renewable until May 2013 (rate of 1.52%)	-	52,600
Term loans		
Hydro-Windsor, 8.25% fixed rate term loan maturing in 2016; (iii)	6,408	6,590
Rutherford Creek, 6.88% fixed rate term loan maturing in 2024; (iv)	50,000	50,000
AAV, floating-rate term loan maturing in 2026, (v) (rate of 1.53%; 1.44% in 2009);	49,535	50,067
Glen Miller, floating-rate term loan maturing in 2013, (vi) (rate of 1.87%);	15,250	-
Umbata Falls, floating-rate term loan maturing in 2014, (vii) (rate of 1.74%);	24,677	-
CAR, floating-rate term loan maturing in 2013, (viii) (rate of 2.11%);	50,661	-
Ashlu Creek, floating-rate construction loan, (ix) (rate of 1.74%);	95,587	-
Fitzsimmons Creek, floating-rate construction loan, (x) (rate of 4.58%);	19,616	-
Kwoiek Creek, fixed rate subordinated term loan, 20.0% during development and 14.0% during construction and operation, (xi)	150	-
Deferred financing costs	(1,612)	(569)
	\$ 384,192	\$ 224,561
Current portion of long-term debt	(8,490)	(2,758)
	\$ 375,702	\$ 221,803

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Concurrently with the Combination, the bank credit facility and facilities 1, 2 and 3 were repaid, cancelled and replaced with a new \$117.4 million revolving credit facility and a new \$52.6 million term loan facility. Both facilities mature in March 2013. Financing costs of \$1.6 million were incurred, charged against long-term debt and amortized using the effective interest rate method over the expected term of the related debts.

The Corporation had the following long-term debts outstanding as at March 31, 2010:

- i) a \$117.4 million revolving credit facility secured by a first-ranking hypothec on Innergex assets and by various security interests granted by some of its subsidiaries. The facility will mature in 2013 and is not amortized. Advances are made in the form of bankers' acceptances ("BA"), prime-rate advances, US base-rate advances, LIBOR advances or letters of credit. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of consolidated senior debt to adjusted EBITDA. As at March 31, 2010, \$21.3 million was due under this facility and an amount of \$11.6 million was used for the issuance of letters of credit. Thus the unused and available portion of the Operating Facility totalled \$84.4 million;
- ii) a \$52.6 million term loan guaranteed by a security interest granted by Innergex, and the Corporation's 38% interest in the BDS wind farm. The facility will mature in 2013 and is not amortized. Advances are made in the form of BA or prime-rate advances. In all cases, interest is calculated at the prevailing benchmark rate plus an additional margin based on Innergex's ratio of consolidated senior debt to adjusted EBITDA. As at March 31, 2010, this facility was fully drawn;
- iii) as part of the acquisition of Hydro-Windsor hydroelectric facility in 2004, the Corporation assumed an \$8.3 million debt bearing interest at a fixed rate of 11.7% until its maturity date in December 2016. This debt was accounted for at its fair market value of \$9.9 million as at April 27, 2004, at an effective interest rate of 8.25%; it is repayable by monthly blended payments of principal and interest totalling \$105,399. This debt is secured by the Hydro-Windsor hydroelectric facility;
- iv) as part of the acquisition of the Rutherford Creek hydroelectric facility in 2005, the Corporation assumed a \$50.0 million debt bearing interest at a fixed rate of 6.88% until its maturity date in June 2024. This debt is secured by the Rutherford Creek hydroelectric facility. It is repayable by monthly interest payments of \$286,473 and, effective July 1, 2012, by monthly blended payments of principal and interest totalling \$510,916;
- v) as part of the acquisition of a 38% interest in the AAV wind farm in 2007, the Corporation assumed a \$54.5 million debt maturing in 2026. It is secured by the Corporation's 38% interest in the AAV wind farm. This debt is repayable in quarterly instalments increasing from \$0.5 million in 2010 to \$1.2 million in 2026 based on a specific amortization schedule. The loan bears interest at the BA rate plus an applicable credit margin;
- vi) as part of the Combination, the Corporation assumed a \$15.3 million non-recourse term loan secured by the Glen Miller hydroelectric facility and maturing in 2013. This loan is amortized at the rate of \$250,000 per quarter. The loan bears interest at the BA rate plus an applicable credit margin;
- vii) as part of the Combination, the Corporation assumed a \$24.8 million non-recourse term loan (corresponding to the Corporation's 49% ownership interest in this facility) maturing in 2014. It is secured by the Corporation's 49% interest in the Umbata Falls hydroelectric facility. The loan's principal payments are based on a 25-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin;
- viii) as part of the Combination, the Corporation assumed a \$50.9 million non-recourse term loan maturing in 2013 and secured by the Corporation's 38% interest in the Carleton wind farm. It was accounted for at its fair market value of \$51.7 million as at March 29, 2010. This loan is amortized over an 18.5-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin;
- ix) as part of the Combination, the Corporation assumed a \$110.0 million non-recourse construction loan from which \$100.4 million had been drawn as at March 31, 2010. It was accounted for at its fair market value of \$95.6 million as at March 29, 2010. The loan is secured by the Ashlu Creek hydroelectric facility and matures 15 years following conversion of the construction loan into a term loan. The loan's principal payments will begin on conversion and will be based on a 25-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin;

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

- x) as part of the Combination, the Corporation assumed a \$24.0 million non-recourse construction loan of which \$17.1 million had been drawn as at March 31, 2010. It was accounted for at its fair market value of \$19.6 million as at March 29, 2010. The loan is secured by the Fitzsimmons Creek hydroelectric facility and matures five years after conversion of the construction loan into a term loan. The loan's principal payments will begin on conversion and be based on a 30-year amortization period. The loan bears interest at the BA rate plus an applicable credit margin.
- xi) as part of the Combination, the Corporation assumed a \$0.2 million subordinated non-recourse term loan made by the Corporation's partner to Kwoiek Creek Resources Limited Partnership ("KCRLP"), the owner of the Kwoiek Creek hydroelectric project. As per the project agreements, both partners can participate in the financing of the project, the Corporation up to an amount of \$20.0 million and its partner up to an amount of \$3.0 million. The loan bears interests at a rate of 20% during the development phase and 14% during the construction and operating phases. The Corporation's subordinated non-recourse term loan made to KCRLP, which is eliminated in the financial statement consolidation process, amounted to \$8.0 million as at March 31, 2010.

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

Convertible Debentures

As part of the Combination process, the Corporation issued the "Convertible Debentures" for a total notional amount of \$80.5 million. The net proceeds were used mainly to pay down long-term debt under the Operating Facility. They were also used to pay for the settlement of the Ashlu Creek bond forwards, specifically \$3.8 million on March 29, 2010, and \$11.9 million on April 1, 2010.

The Convertible Debentures bear interest at an annual rate of 5.75% and will mature on April 30, 2017. Each Convertible Debenture is convertible into common shares of the Corporation at the option of the holder at any time prior to the earlier of April 30, 2017, and the Convertible Debenture redemption date specified by the Corporation at a conversion price of \$10.65 per common share (the "Conversion Price"). The Convertible Debentures may not be redeemed by the Corporation on or before April 30, 2013, except in certain limited circumstances following a change of control. After April 30, 2013, and prior to April 30, 2015, the Convertible Debentures may be redeemed by the Corporation at a redemption price equal to their principal amount plus accrued and unpaid interest thereon, provided that the current market price of the common shares on the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after April 30, 2015, and prior to April 30, 2017, the Convertible Debentures may be redeemed by the Corporation, in whole or in part, from time to time at a redemption price equal to their principal amount plus accrued and unpaid interest.

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

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 ("Derivatives"). Since these Derivatives are entered into with major financial institutions rated A or better by Standard & Poor's, the Corporation considers the risk of illiquidity to be low.

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

Taken together, the swap contracts shown in the following table allow the Corporation to eliminate the risk of interest rate increases on a total of \$334.6 million in long-term debt. This figure combined with the \$56.4 million in existing fixed-rate debts and the \$80.5 million in Convertible Debentures mean that 99% of the Corporation's total indebtedness is protected from interest rates increases.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Swap Contract Notional Amounts	Early termination option	March 31, 2010	December 31, 2009
Interest rate swaps, rates ranging from 3.96% to 4.09%, expiring in June 2015	None	\$ 15,000	\$ 15,000
Interest rate swap, 4.27%, expiring in November 2016	None	3,000	3,000
Interest rate swap, 4.41%, expiring in June 2018	June 2013	30,000	30,000
Interest rate swap, 4.27%, expiring in June 2018	June 2013	52,600	52,600
Interest rate swap, 4.93%, amortized until March 2026	None	49,535	50,067
Interest rate swap, 3.45%, amortized until March 2027	December 2013	49,834	-
Interest rate swap, 4.11%, amortized until June 2034	None	24,677	-
Forward interest rate swap, 4.70%, amortized until June 2035 ¹	June 2025	110,000	-
		\$ 334,646	\$ 150,667

1. This swap took effect on April 29, 2010, after the termination option was extended to June 2025.

Derivatives had a net negative value of \$11.4 million at the end of the first quarter of 2010 (\$10.2 million at the end of 2009). This variation is due to a decrease in benchmark interest rates for maturities over seven years since the end of 2009. Derivatives are recorded at an estimated credit-adjusted mark-to-market valuation. The Corporation does not use hedge accounting for its Derivatives.

Some interest rate swaps have imbedded early termination options which are only exercisable on the maturity date of their underlying debt. The trigger 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, since a negative swap value would be the result of an environment in which interest rates were lower than the rate embedded in the swap.

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

As at March 31, 2010, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at \$10.2 million (\$10.1 million as at December 31, 2009). These instruments represent the value attributed to inflation clauses included in these PPA contracts.

Future Income Taxes

The tax impact of temporary differences may result in future tax assets or liabilities. As at March 31, 2010, the Corporation's net future income tax liability was \$65.5 million, compared with a net future income tax liability of \$68.3 million as at December 31, 2009. This variation resulted mainly from the Combination.

Off-Balance-Sheet Arrangements

As at March 31, 2010, the Corporation had issued letter of credits totalling \$16.2 million to meet its obligations under its various PPAs and other agreements. Of this amount, \$11.6 million was issued under its Operating Facility and the remainder under the projects' non-recourse credit facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Shareholders' Equity

As at March 31, 2010, the Corporation's shareholders' equity totalled \$295.0 million, compared with \$189.5 million as at December 31, 2009. The difference is attributable mainly to the Combination.

As at May 10, 2010, the Corporation has a total of 59,532,606 common shares, 80,500 Convertible Debentures, 1,269,000 stock options and 200,000 warrants outstanding. As at December 31, 2009, it had 42,930,243 common shares outstanding.

Contractual Obligations

Expected Contractual Obligations as at March 31, 2010					
Contractual obligations	Total	Under 1 year	1 to 3 years	4 to 5 years	Over 5 years
Long-term debt including accrual for acquisition of long-term assets	\$ 474,704	\$ 8,392	\$ 95,168	\$ 95,301	\$ 275,842
Interest on long-term debt and convertible debentures	222,445	29,476	57,427	44,108	91,434
Operating leases	7,685	312	641	665	6,067
Purchase (Contractual) obligations ¹	15,852	2,404	4,679	1,248	7,522
Other ²	7,675	970	1,191	542	4,971
Total contractual obligations	\$ 728,361	\$ 41,554	\$ 159,107	\$ 141,864	\$ 385,836

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

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

ADJUSTED CASH FLOWS FROM OPERATING ACTIVITIES AND DISTRIBUTIONS

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

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

Adjusted Cash Flows from Operating Activities	Three-month period ended March 31, 2010	Three-month period ended March 31, 2009
Cash flow from operating activities	\$ 2,755	\$ 8,308
Change in non-cash working capital items	4,890	(435)
Net withdrawals from (investments in) the reserve accounts	946	152
Adjusted cash flows from operating activities	\$ 8,591	\$ 8,025
Weighted average number of shares outstanding – basic	43,299,198	42,930,243
Adjusted cash flows from operating activities (\$ per share - basic)	\$ 0.20	\$ 0.19
Distributions declared	\$ 7,238	\$ 7,349
Distributions declared (\$ per share)	\$ 0.17	\$ 0.17

For the quarter ended March 31, 2010, the Corporation generated \$8.6 million in adjusted cash flows from operating activities (\$8.0 million in 2009) and declared cash distributions totalling \$7.2 million (\$7.3 million in 2009) or \$0.17 per share (idem in 2009). The change in adjusted cash flows from operating activities is due mainly to the \$0.8 million increase in net withdrawals from the reserve accounts partially offset by the \$0.4 million decrease in revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

SEGMENT INFORMATION

Geographic Segments

The Corporation has 13 hydroelectric facilities and three wind farms in Canada and one hydroelectric facility in the United States. For the first quarter ended March 31, 2010, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$0.2 million (\$0.4 million in 2009), representing a contribution of 1.7% (2.8% in 2009) to the Corporation's consolidated operating revenues for this period.

Reportable Segments

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

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

The accounting policies for these segments are the same as those described in the "Significant Accounting Policies" section of the Fund's 2009 Annual Report and of the Corporation's Q1-2010 unaudited financial statements. The Corporation evaluates performance based on EBITDA and accounts for inter-segment and management sales at cost. Any transfers of assets from the site development segment to the hydroelectric or wind power generation segments are accounted for at cost.

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

Reportable Segments	Three-month period ended March 31, 2010			
	Hydroelectric generation	Wind power generation	Site Development	Total
	\$	\$	\$	\$
Power generated (MW-hr)	97,914	59,752	-	157,666
Gross operating revenues	8,845	4,706	-	13,551
Expenses:				
Operating expenses	1,376	486	-	1,862
Stock-based compensation	-	-	2	2
General and administrative expenses	608	227	134	969
Prospective projects expenses	-	-	10	10
EBITDA	6,861	3,993	(146)	10,708
As at March 31, 2010				
Goodwill	8,269	-	-	8,269
Total assets	591,324	278,325	22,848	892,497
Acquisitions of capital assets since the beginning of the year	14	26	-	40
As at December 31, 2009				
	\$	\$	\$	\$
Goodwill	8,269	-	-	8,269
Total assets	330,157	177,984	-	508,141

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Reportable Segments	Three-month period ended March 31, 2009			
	Hydroelectric generation	Wind power generation	Site Development	Total
	\$	\$	\$	\$
Power generated (MW-hr)	97,466	66,446	-	163,912
Gross operating revenues	8,726	5,215	-	13,941
Expenses:				
Operating expenses	1,470	443	-	1,913
Stock-based compensation	-	-	-	-
General and administrative expenses	677	261	-	938
Prospective projects expenses	-	-	-	-
EBITDA	6,579	4,511	-	11,090

Hydroelectric Generation Segment

In the first quarter of 2010, the hydroelectric generation segment produced 4% more power than the long-term average due to favourable hydrologic conditions for most of its facilities. This level of production resulted in gross operating revenues of \$8.8 million. As a consequence of the Combination, these results include the contribution from the assets of the Pre-Combination Innergex for the last two days of March 2010. For the corresponding quarter of 2009, production exceeded the long-term average by 5% due to favourable hydrologic conditions for most of the Corporation's hydroelectric facilities while gross operating revenues totalled \$8.7 million. This \$0.1 million increase in revenues combined with the \$0.2 million decrease in operating and general and administrative expenses explain the \$0.3 million increase in EBITDA.

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

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

Wind Power Generation Segment

After adjusting production figures for the two-day contribution of the Carleton wind farm as a result of the Combination, electricity production reached 59,752 MW-hr during the period, 20% below expectations (10% below expectations in 2009). This was the result of weather conditions below long-term averages and of the five-day shutdown of the AAV wind farm in January 2010, which was caused by transmission line work carried out by Hydro-Québec. Consequently, gross operating revenues and EBITDA each decreased by \$0.5 million when compared with the first quarter of 2009.

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

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

Site Development Segment

Prior to the Combination, this segment was relevant only for the Pre-Combination Innergex. As a result of the Combination, only two days were recorded for the quarter ended March 31, 2010.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

RELATED PARTY TRANSACTIONS

As Manager of the Innergex Power Income Fund

Prior to the Combination, the Corporation provided services to the Fund and its subsidiaries under three agreements: the Management Agreement; the Administration Agreement; and the Services Agreement. In the first quarter of 2010, the Fund paid \$0.5 million for services provided under these three agreements (idem in 2009). These agreements were terminated upon the closing of the Combination.

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 estimated purchase price amounts to \$175.5 million and was accounted for under Section 1581 of the Canadian Institute Chartered Accountant ("CICA") Handbook. The fair value of the consideration transferred is based on the number of Fund units that would have had to be issued in order to provide the same percentage of ownership of the combined entity to the unitholders of the Fund. The preliminary purchase price allocation is presented in Note 3 to the Corporation's Q1-2010 unaudited financial statements.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires Innergex's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates are based on management's best knowledge of current events and actions that the Company may take in the future. Actual amounts may differ if such estimates are modified. The critical accounting estimates for the Corporation are related to the valuation of assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives for depreciation and amortization, valuation of derivative financial instruments, and future income taxes. Fixed assets, comprised essentially of hydroelectric and wind power generating facilities, are recorded at cost. Financing costs related to the construction of fixed assets are capitalized when incurred. Depreciation of hydroelectric and wind power generating facilities is based on the estimated useful life of the assets using the straight-line method over the lesser of a period of 50 years for hydroelectric facilities and 25 years for wind facilities and the period for which the Corporation owns the rights to the assets. Intangible assets consist of various permits, licences and agreements related to the hydroelectric and wind power generating facilities. These intangible assets are amortized using the straight-line method over the period from when the facility becomes commercially operational until the first maturity date of permits, licences and agreements for each facility. Derivative financial instruments are valued by taking into account their maturity, benchmark interest rates, the Corporation's or counterparty's risk premium and/or the inflation rate. Other significant accounting policies are listed in Note 1 to the Fund's 2009 audited consolidated financial statements and in Note 2 to the Corporation's Q1-2010 unaudited financial statements.

ACCOUNTING CHANGES

International Financial Reporting Standards

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

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

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

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

An analysis of the impact on the financial statements' most important items has begun. The items identified as having a potentially significant impact on the opening balance sheet or on the statements of earnings are property, plant and equipment and investments in associates and joint ventures. The potential impact from property, plant and equipment comes from its disclosure in its various components, and their various useful lives. A first draft of the property, plant and equipment components has been developed by management. The identification of these components and their useful lives, the impact on the opening balance sheet as at January 1, 2010, as well as on the consolidated statements of earnings continues. The detailed computation of the adjustments required to depreciation has started. Several investments in associates and joint ventures are consolidated in Innergex under Canadian GAAP. These investments are either, fully consolidated, proportionally consolidated or consolidated as variable interest entities. Under IFRS, some of these investments might have to be accounted for as investments on the balance sheet with their results recognized as share of net earnings of an entity subject to significant influence. The analysis of these differences is underway to identify which entities might be affected.

Following the Combination, a review of all previously made analysis will be made and additional elements will need to be analysed including treatment of Fund's units and accounting for reverse takeover. This will be started in the second quarter of 2010 and should be completed at the end of the third quarter of 2010. Following the computation of any adjustments, the tax effect will also be analysed.

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

A monitoring system of the adjustments will be established during 2010 in order to restate financial statements and ensure their compliance with the IFRS. When the effects of the restatement will be known, the Corporation will communicate them through its continuous disclosure. It is expected that most adjustments impacting the January 1, 2010 opening balance sheet should be quantified at the end of the third quarter of 2010. During the fourth quarter of 2010, the financial statements of Innergex for the first three quarters of 2010 will be prepared to be IFRS compliant. In the first quarter of 2011, Innergex will prepare the IFRS financial statements for the fourth quarter and the 2010 annual report.

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

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

RISKS AND UNCERTAINTIES

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

ADDITIONAL INFORMATION AND UPDATES

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

QUARTERLY FINANCIAL INFORMATION

For the three-month periods ended (unaudited):

Quarterly Financial Information (unaudited) for the Three-Month Periods Ended:				
(in millions of dollars, unless otherwise stated)	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	Jun. 30, 2009
Power generated (MW-hr)	157,666	189,011	223,302	247,764
Gross operating revenues	13.6	13.2	15.0	16.5
EBITDA	10.7	10.2	11.9	13.6
Net (loss) earnings	(0.5)	7.0	2.8	13.4 ^a
Net (loss) earnings (\$ per share - basic)	(0.01)	0.16	0.07	0.31 ^a
Net (loss) earnings (\$ per share - diluted)	(0.01)	0.16	0.07	0.31 ^a
Cash flows from operating activities	2.8	4.8	10.3	11.4
Change in non-cash working capital items	4.9	2.4	(2.1)	(1.4)
Net withdrawals from (investments in) the reserve accounts	0.9	-	0.2	(0.8)
Adjusted cash flows from operating activities	8.6	7.2	8.4	9.2
Adjusted cash flows from operating activities (\$ per share - basic)	0.20	0.17	0.20	0.21
Distributions declared	7.2	7.4	7.4	7.4
Distributions declared (\$ per share)	0.17	0.17	0.17	0.17

^a When excluding the unrealized foreign exchange gain of \$0.2 million, the unrealized gain on derivative financial instruments of \$11.2 million and the related future income tax provision of \$2.8 million, the net earnings for Q2 2009 would have been \$4.7 million (\$0.11 per basic and diluted share).

Quarterly Financial Information (unaudited) for the Three-Month Periods Ended:				
(in millions of dollars, unless otherwise stated)	Mar. 31, 2009	Dec. 31, 2008	Sept. 30, 2008	Jun. 30, 2008
Power generated (MW-hr)	163,912	220,299	236,778	244,378
Gross operating revenue	13.9	14.7	15.4	15.8
EBITDA	11.1	11.0	12.5	12.8
Net earnings (loss)	3.0	(13.8) ^b	3.8	7.5
Net earnings (loss) (\$ per share - basic)	0.07	(0.32) ^b	0.09	0.18
Net earnings (loss) (\$ per share - diluted)	0.07	(0.32) ^b	0.09	0.18
Cash flows from operating activities	8.3	7.1	11.1	6.7
Change in non-cash working capital items	(0.4)	(0.3)	(1.8)	3.7
Net withdrawals from (investments in) the reserve accounts	0.2	0.9	0.1	(0.9)
Adjusted cash flows from operating activities	8.1	7.7	9.4	9.5
Adjusted cash flows from operating activities (\$ per share - basic)	0.19	0.18	0.22	0.22
Distributions declared	7.3	7.3	7.3	7.3
Distributions declared (\$ per share)	0.17	0.17	0.17	0.17

^b When excluding the unrealized exchange loss of \$0.3 million, the unrealized loss on derivative financial instruments of \$19.5 million and the related future income tax recovery of \$2.6 million, the net earnings for Q4 2008 would have been \$3.4 million (\$0.08 per basic and diluted share).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

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

SUBSEQUENT EVENTS

Ashlu Creek and Fitzsimmons Creek Facilities

On April 23, 2010, the Ashlu Creek and Fitzsimmons Creek facilities received their EcoLogo certification, thereby confirming that both facilities will receive incentive payments under the ecoENERGY Initiative of the Federal government. These payments correspond to \$10 per MW-hr for the next ten years.

Ashlu Creek Facility

On April 29, 2010, the Corporation settled a \$110.0 million forward-starting amortizing interest rate swap. Concurrently, the Corporation entered into a \$110.0 million forward-starting amortizing interest rate swap, thereby fixing the interest rate at 4.70% starting on the effective date of September 30, 2010 until the end of the related long-term debt amortization schedule of June 2035. By entering into this swap transaction, Innergex has eliminated its exposure to variable interest rates on this amount and has protected the project's economic value.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three-month period ended March 31, 2010

Information for Investors

Stock Exchange Listing

Shares of Innergex Renewable Energy Inc. are listed on the TSX under the symbol INE.

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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

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