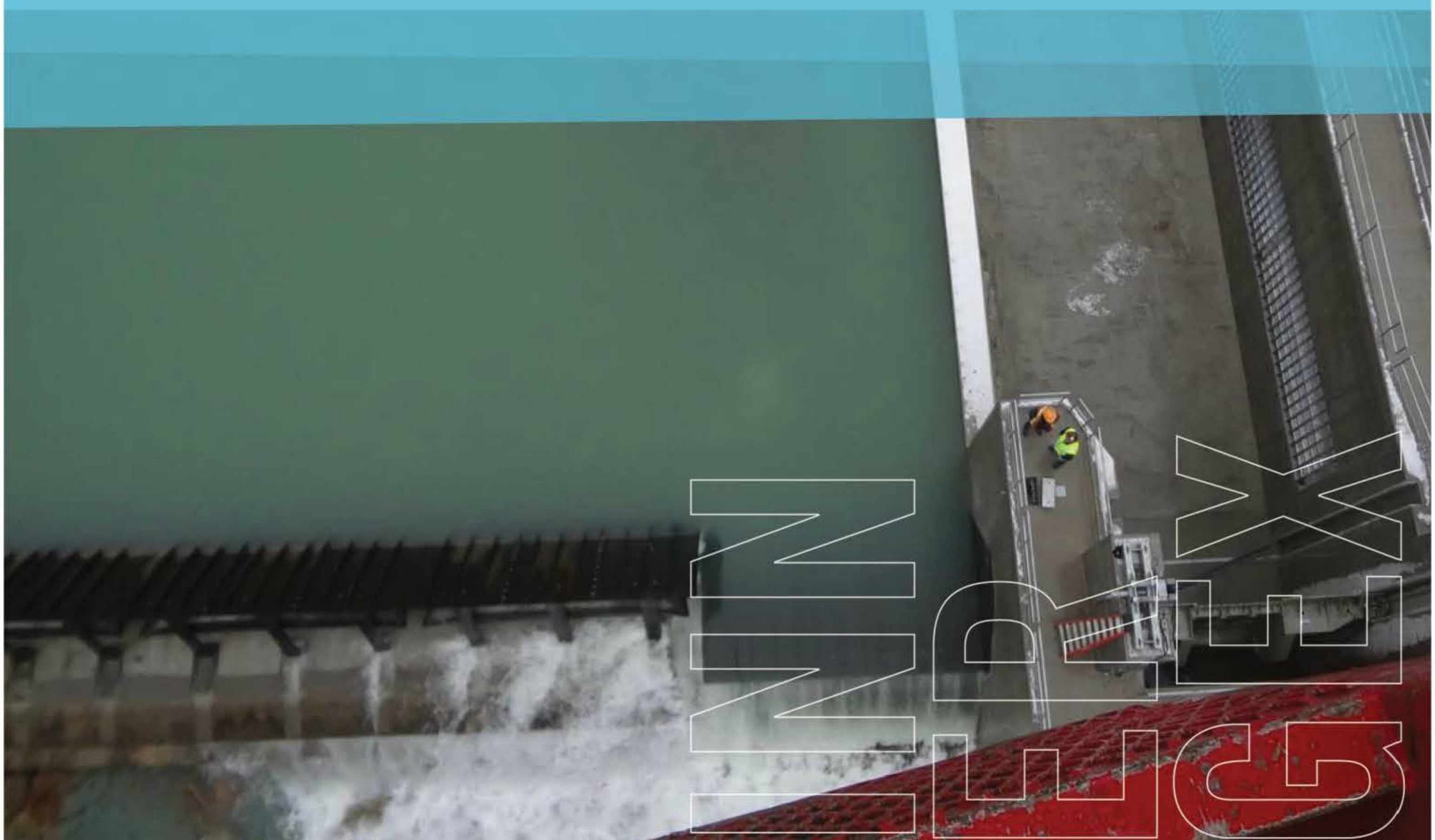
INNERGEX

Renewable Energy.
Sustainable Development.

# QUARTERLY REPORT 2014

## FOR THE PERIOD ENDED SEPTEMBER 30, 2014

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



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

**Innergex Renewable Energy Inc.** is a leading Canadian independent renewable power producer. Active since 1990, the Corporation develops, owns and operates run-of-river hydroelectric facilities, wind farms and solar photovoltaic farms and carries out its operations in Quebec, Ontario and British Columbia and in Idaho, USA. The Corporation's shares are listed on the Toronto Stock Exchange under the symbols INE, INE.PR.A and INE.PR.C and its convertible debentures under the symbol INE.DB.

Innergex's mission is to increase its production of renewable energy by developing and operating high-quality facilities while respecting the environment and serving the best interests of the host communities, its partners and its investors.

## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is a discussion of the operating results, cash flows and financial position of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the nine-month period ended September 30, 2014, and reflects all material events up to November 6, 2014, the date on which this MD&A was approved by the Corporation's Board of Directors.

The MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes for the nine-month period ended September 30, 2014, and with the Corporation's *Financial Review* at December 31, 2013. Additional information relating to Innergex, including its *Annual Information Form*, can be found on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com or on the Corporation's website at www.innergex.com.

The unaudited condensed consolidated financial statements attached to this MD&A and the accompanying notes for the nine-month period ended September 30, 2014, along with the 2013 comparative figures, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Some amounts included in this MD&A have been rounded to make reading easier, which may affect some calculations.

## Q3 2014 HIGHLIGHTS

- Production was 97% of long-term average ("LTA") due mainly to below-average water flows at several facilities
- Revenues rose 14% to $66.4 million compared with the same period last year
- Adjusted EBITDA rose 11% to $51.7 million compared with the same period last year
- A $92.9M fixed-rate, non-recourse debt financing was closed for the 21.2 MW Tretheway Creek hydroelectric project
- A partnership agreement was signed with the In-SHUCK-ch Nation to develop six hydroelectric projects in British Columbia

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## ESTABLISHMENT AND MAINTENANCE OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

In accordance with *Regulation 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer and the Chief Financial Officer and Senior Vice President of the Corporation have certified that there were no material weaknesses relating to the DC&P and ICFR for the three-month period ended September 30, 2014. During the three-month period ended September 30, 2014, there was no change to the ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

## FORWARD-LOOKING INFORMATION

To inform readers of the Corporation's future prospects, this MD&A contains forward-looking information within the meaning of applicable securities laws ("Forward-Looking Information"). Forward-Looking Information can generally be identified by the use of words such as "approximately", "may", "will", "could", "believes", "expects", "intends", "should", "plans", "potential", "project", "anticipates", "estimates", "scheduled" or "forecasts", or other comparable terminology that state that certain events will or will not occur. It represents the projections and expectations of the Corporation relating to future events or results, as of the date of this MD&A.

**Future-oriented financial information:** Forward-Looking Information includes future-oriented financial information or financial outlook within the meaning of securities laws, such as expected production, projected revenues, projected Adjusted EBITDA and estimated project costs, to inform readers of the potential financial impact of expected results, of the expected commissioning of Development Projects, of the Corporation's ability to sustain current dividends and dividend increases and of its ability to fund its growth. Such information may not be appropriate for other purposes.

**Assumptions:** Forward-Looking Information is based on certain key assumptions made by the Corporation, including those concerning hydrology, wind regimes and solar irradiation, performance of operating facilities, financial market conditions and the Corporation's success in developing new facilities.

**Risks and uncertainties:** Forward-Looking Information involves risks and uncertainties that may cause actual results or performance to be materially different from those expressed, implied or presented by the Forward-Looking Information. These are referred to in the Corporation's *Annual Information Form* in the "Risk Factors" section and include, without limitation: the ability of the Corporation to execute its strategy for building shareholder value; its ability to raise additional capital and the state of capital markets; liquidity risks related to derivative financial instruments; variability in hydrology, wind regimes and solar irradiation; delays and cost overruns in the design and construction of projects; health, safety and environmental risks; uncertainty surrounding the development of new facilities; obtainment of permits; variability of installation performance and related penalties; equipment failure or unexpected operations and maintenance activity; interest rate fluctuations and refinancing risk; financial leverage and restrictive covenants governing current and future indebtedness; the possibility that the Corporation may not declare or pay a dividend; the ability to secure new power purchase agreements or to renew existing ones; changes in governmental support to increase electricity to be generated from renewable sources by independent power producers; the ability to attract new talent or to retain officers or key employees; litigation; performance of major counterparties; social acceptance of renewable energy projects; relationships with stakeholders; equipment supply; changes in general economic conditions; regulatory and political risks; the ability to secure appropriate land; reliance on power purchase agreements; availability and reliability of transmission systems; increases in water rental cost or changes to regulations applicable to water use; assessment of water, wind and sun resources and associated electricity production; dam failure; natural disasters and *force majeure*; foreign exchange fluctuations; sufficiency of insurance coverage limits and exclusions; a credit rating that may not reflect actual performance of the Corporation or a lowering (downgrade) of the credit rating; potential undisclosed liabilities associated with acquisitions; integration of the facilities and projects acquired and to be acquired; failure to realize the anticipated benefits of acquisitions, including those of the SM-1 hydroelectric facility; reliance on shared transmission and interconnection infrastructure; the introduction of solar photovoltaic power facility operation; and the fact that revenues from the Miller Creek facility will vary based on the spot price of electricity.

Although the Corporation believes that the expectations and assumptions on which Forward-Looking Information is based are reasonable under the current circumstances, readers are cautioned not to rely unduly on this Forward-Looking Information since no assurance can be given that it will prove to be correct. Forward-Looking Information contained herein is made as at the date of this MD&A and the Corporation does not undertake any obligation to update or revise any Forward-Looking Information, whether as a result of events or circumstances occurring after the date hereof, unless so required by legislation.

## Forward-Looking Information in this MD&A

The following table outlines the Forward-Looking Information contained in this MD&A, which the Corporation considers important to better inform readers about its potential financial performance, together with the principal assumptions used to derive this information and the principal risks and uncertainties that could cause actual results to differ materially from this information.

| Principal Assumptions | Principal Risks and Uncertainties |
|---|---|
| **Expected production**<br>For each facility, the Corporation determines a long-term average annual level of electricity production ("LTA") over the expected life of the facility, based on engineers' studies that take into consideration a number of important factors: for hydroelectricity, the historically observed flows of the river, the operating head, the technology employed and the reserved aesthetic and ecological flows; for wind energy, the historical wind and meteorological conditions and turbine technology; and for solar energy, the historical solar irradiation conditions, panel technology and expected solar panel degradation. Other factors taken into account include, without limitation, site topography, installed capacity, energy losses, operational features and maintenance. Although production will fluctuate from year to year, over an extended period it should approach the estimated long-term average. On a consolidated basis, the Corporation estimates the LTA by adding the expected LTA of all the facilities in operation that it consolidates (excludes Umbata Falls and Viger-Denonville accounted for using the equity method). | Improper assessment of water, wind and sun resources and associated electricity production<br>Variability in hydrology, wind regimes and solar irradiation<br>Equipment failure or unexpected operations and maintenance activity |
| **Projected revenues**<br>For each facility, expected annual revenues are estimated by multiplying the LTA by a price for electricity stipulated in the power purchase agreement secured with a public utility or other creditworthy counterparty. These agreements stipulate a base price and, in some cases, a price adjustment depending on the month, day and hour of delivery, except for the Miller Creek hydroelectric facility, which receives a price based on a formula using the Platts Mid-C pricing indices, and the Horseshoe Bend hydroelectric facility, for which 85% of the price is fixed and 15% is adjusted annually as determined by the Idaho Public Utility Commission. In most cases, power purchase agreements also contain an annual inflation adjustment based on a portion of the Consumer Price Index. On a consolidated basis, the Corporation estimates annual revenues by adding together the projected revenues of all the facilities in operation that it consolidates (excludes Umbata Falls and Viger-Denonville, which are accounted for using the equity method). | Production levels below the LTA caused mainly by the risks and uncertainties mentioned above<br>Unexpected seasonal variability in the production and delivery of electricity<br>Lower-than-expected inflation rate |
| **Projected Adjusted EBITDA**<br>For each facility, the Corporation estimates annual operating earnings by subtracting from the estimated revenues the budgeted annual operating costs, which consist primarily of operators' salaries, insurance premiums, operations and maintenance expenditures, property taxes and royalties; these are predictable and relatively fixed, varying mainly with inflation (except for maintenance expenditures). | Variability of facility performance and related penalties<br>Changes to water and land rental expenses<br>Unexpected maintenance expenditures |
| **Estimated project costs, expected obtainment of permits, start of construction, work conducted and start of commercial operation for Development Projects or Prospective Projects**<br>For each development project, the Corporation provides an estimate of project costs based on its extensive experience as a developer, directly related incremental internal costs, site acquisition costs and financing costs, which are eventually adjusted for the projected costs provided by the engineering, procurement and construction ("EPC") contractor retained for the project.<br>The Corporation provides indications regarding scheduling and construction progress for its Development Projects and indications regarding its Prospective Projects, based on its extensive experience as a developer. | Performance of counterparties, such as the EPC contractors<br>Delays and cost overruns in the design and construction of projects<br>Obtainment of permits<br>Equipment supply<br>Interest rate fluctuations financing risk<br>Relationships with stakeholders<br>Regulatory and political risks<br>Higher-than-expected inflation |

| Principal Assumptions | Principal Risks and Uncertainties |
|---|---|
| **Expected project financing or refinancing of Operating Facilities**<br>The Corporation provides indications of its intention to secure non-recourse project-level debt financing for its Development Projects and to refinance Operating Facilities upon the end of the term of existing project-level debt, based on the expected costs and revenues of each project, the expected remaining PPA term, an initial leverage ratio of approximately 75%-85% as well as the Corporation's extensive experience in project financing and knowledge of capital markets. | Interest rate fluctuations and financing risk<br>Financial leverage and restrictive covenants governing current and future indebtedness |
| **Intention to submit projects under requests for proposals**<br>The Corporation provides indications of its intention to submit projects under requests for proposals based on the state of readiness of some of its Prospective Projects and their compatibility with the announced terms of these requests for proposals. | Regulatory and political risks<br>Ability of the Corporation to execute its strategy for building shareholder value<br>Ability to secure new PPAs |

## ADDITIONAL INFORMATION AND UPDATES

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

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

## OVERVIEW

The Corporation is a developer, owner and operator of renewable power-generating facilities with a focus on hydroelectric, wind power and solar photovoltaic ("PV") projects that benefit from low operating and management costs and simple, proven technologies.

### Portfolio of Assets

As at the date of this MD&A, the Corporation owns interests in three groups of power-generating projects:

- 33 facilities in commercial operation (the "Operating Facilities"). Commissioned between November 1994 and January 2014, the facilities have a weighted average age of approximately 6.9 years. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 18.8 years (based on gross long-term average production);

- Five projects scheduled to begin commercial operation between 2015 and 2016 (the "Development Projects"). Construction is ongoing at four of the projects; and

- Numerous projects that have secured certain land rights, for which an investigative permit application has been filed or for which a proposal has either been or could be submitted under a Request for Proposal or a Standing Offer Program (collectively the "Prospective Projects"). These projects are at various stages of development.

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

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| | Operating Facilities | Development Projects | Prospective Projects |
|---|---|---|---|
| **Hydro** | | | |
| Gross capacity: | 547.0 MW | 168.5 MW | 1,000.0 MW |
| Net capacity[1]: | 417.7 MW | 132.9 MW | 950.0 MW |
| **Wind** | | | |
| Gross capacity: | 614.1 MW | 150.0 MW | 2,085.0 MW |
| Net capacity[1]: | 236.3 MW | 75.0 MW | 1,910.0 MW |
| **Solar** | | | |
| Gross capacity: | 33.2 MW | - | 40.0 MW |
| Net capacity[1]: | 33.2 MW | - | 40.0 MW |
| **Total** | | | |
| Gross capacity: | 1,194.3 MW | 318.5 MW | 3,125.0 MW |
| Net capacity[1]: | 687.2 MW | 207.9 MW | 2,900.0 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 partners' ownership share.

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

## BUSINESS STRATEGY

The Corporation's strategy for building shareholder value is to develop or acquire high-quality renewable power production facilities that generate sustainable cash flows and provide a high return on invested capital and to distribute a stable dividend.

### Annual Dividend Policy

The Corporation intends to distribute an annual dividend of $0.60 per common share, payable quarterly.

The Corporation's dividend policy is determined by its Board of Directors and is based on the Corporation's operating results, cash flows, financial condition, debt covenants, long-term growth prospects, solvency tests imposed under corporate law for the declaration of dividends and other relevant factors.

### Key Performance Indicators

The Corporation measures its performance using key performance indicators that include or could include power generated in megawatt-hours ("MWh") and gigawatt-hours ("GWh"), revenues less operating expenses, general and administrative expenses and prospective project expenses ("Adjusted EBITDA") and Adjusted EBITDA divided by revenues ("Adjusted EBITDA Margin") and dividends declared on common shares divided by Free Cash Flow ("Payout Ratio"), where Free Cash Flow is defined as cash flows from operations before changes in non-cash operating working capital items, less maintenance capital expenditures net of proceeds from disposals, scheduled debt principal payments, preferred share dividends and the portion of Free Cash Flow attributed to non-controlling interests, plus cash receipts by the Harrison Hydro L.P. for the wheeling services to be provided to other facilities owned by the Corporation over the course of their PPA. Free Cash Flow is also adjusted for cash inflows or outflows that are not representative of the Corporation's long-term cash generating capacity, such as transaction costs related to realized acquisitions (which are financed at the time of the acquisition) and realized losses or gains on derivative financial instruments used to hedge the interest rate on project-level debt prior to securing such debt.

These indicators are not recognized measures under IFRS and therefore may not be comparable with those presented by other issuers. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net earnings and Free Cash Flow should not be construed as an alternative to cash flows from operating activities as determined in accordance with IFRS. The Corporation believes that these indicators are important since they provide management and the reader with additional information about the Corporation's production and cash generating capabilities, its ability to sustain current dividends and dividend increases and its ability to fund its growth. These indicators also facilitate the comparison of results over different periods.

### Diversification of Sources of Energy

The amount of electricity generated by the Operating Facilities is generally dependent on the availability of water flows, wind regimes and solar irradiation. Lower-than-expected water flows, wind regimes or solar irradiation in any given year could have an impact on the Corporation's revenues and hence on its profitability. Innergex owns interests in 26 hydroelectric facilities, which draw on 23 watersheds, six wind farms and one solar farm, providing significant diversification in terms of operating revenue sources. Furthermore, given the nature of hydroelectric, wind and solar power generation, seasonal variations are partially offset, as illustrated in the following table and charts:

| Consolidated long-term average production[1] | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| In GWh and % | Q1 | | Q2 | | Q3 | | Q4 | | Total |
| HYDRO | 321.9 | 14% | 815.9 | 35% | 724.3 | 31% | 472.8 | 20% | 2,334.9 |
| WIND | 213.6 | 32% | 142.8 | 21% | 112.8 | 17% | 207.3 | 31% | 676.5 |
| SOLAR[2] | 7.3 | 19% | 12.6 | 33% | 12.7 | 33% | 5.8 | 15% | 38.4 |
| Total | 542.8 | 18% | 971.3 | 32% | 849.8 | 28% | 685.9 | 22% | 3,049.8 |

1. Annualized long-term average production ("LTA") for the facilities in operation at November 6, 2014. The LTA is presented in accordance with revenue recognition accounting rules under IFRS and excludes production from facilities that are accounted for using the equity method, which is presented in the "Investments in Joint Ventures" section.
2. Solar farm LTA diminishes over time due to expected solar panel degradation.

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

## THIRD QUARTER UPDATE

### Summary of operating and financial performance

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Power generated (MWh) | 826,617 | 706,496 | 2,142,548 | 1,885,207 |
| LTA (MWh) | 849,838 | 665,285 | 2,283,675 | 1,893,775 |
| Production as percentage of LTA | 97% | 106% | 94% | 100% |
| Revenues | 66,371 | 58,039 | 173,619 | 156,894 |
| Adjusted EBITDA | 51,668 | 46,688 | 130,814 | 123,351 |
| Adjusted EBITDA Margin | 77.8% | 80.4% | 75.3% | 78.6% |
| Net (loss) earnings | (4,518) | 11,147 | (56,812) | 42,008 |
| Dividend declared per Class A Preferred Share | 0.3125 | 0.3125 | 0.9375 | 0.9375 |
| Dividend declared per Class C Preferred Share[1] | 0.359375 | 0.359375 | 1.078125 | 1.211050 |
| Dividend declared per common share | 0.150 | 0.145 | 0.450 | 0.435 |

1. The initial dividend payment in the first quarter of 2013 was higher to reflect dividends accrued since the closing date of the Series C Preferred Share offering of December 11, 2012. The regular quarterly dividend amount is $0.359375.

For the three-month period ended September 30, 2014, production was 97% of the LTA, due mainly to below-average water flows at several facilities in Quebec, British Columbia and the United States. These were offset by above-average wind and solar regimes. Production increased 17%, revenues increased 14% and Adjusted EBITDA increased 11%, compared with the same period last year. For the nine-month period ended September 30, 2014, production was 94% of the LTA, due mainly to below-average water flows, especially in British Columbia, and below-average wind regimes during the second quarter. Production increased 14%, revenues increased 11% and Adjusted EBITDA increased 6%, compared with the same period last year.

For the three- and nine-month periods ended September 30, 2014, the increase in production and revenues was attributable mainly to the addition of the Magpie hydroelectric facility acquired in July 2013, the addition of the Kwoiek Creek and Northwest Stave River facilities commissioned at the end of 2013 and the addition of the SM-1 hydroelectric facility acquired in June 2014. Compared with the increase in production, the smaller increase in revenues was attributable to the lower average selling price for electricity, which was expected following the addition of the Magpie and SM-1 facilities, for which the selling price is lower than for most of the Corporation's other facilities. Compared with the increase in revenues, the smaller increase in Adjusted EBITDA was attributable to production below the LTA and therefore less revenues to offset higher operating expenses related to the greater number of facilities in operation and higher prospective project expenses.

The recognition of net losses for the three- and nine-month periods ended September 30, 2014, compared with net earnings for the same periods in 2013, was attributable mainly to a realized loss on derivative financial instruments resulting from the settlement of the Tretheway Creek bond forward contracts upon closing of the project financing at the end of the quarter, and to an unrealized net loss of derivative financial instruments resulting from a decrease in benchmark interest rates during these periods, compared with an unrealized net gain on derivative financial instruments resulting from an increase in benchmark interest rates for the same periods last year.

Excluding the realized loss on derivative financial instruments and the unrealized net loss or gain on derivative financial instruments and the related income taxes, the net earnings for the three-month period ended September 30, 2014, would have been $7.1 million, compared with net earnings of $9.7 million in 2013, and the net earnings for the nine-month period ended September 30, 2014, would have been $5.1 million, compared with net earnings of $18.0 million in 2013. For both the three- and nine-month periods, the lower net earnings would have been due mainly to production below the LTA.

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

| Impact on net (loss) earnings of the realized loss and the unrealized net loss (gain) on derivative financial instruments | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net (loss) earnings | (4,518) | 11,147 | (56,812) | 42,008 |
| *Add (Subtract):* | | | | |
| Unrealized net loss (gain) on derivative financial instruments | 6,934 | (2,404) | 72,111 | (33,560) |
| Realized loss on derivative financial instruments | 8,366 | — | 8,366 | 3,259 |
| Income tax (recovery) expense related to above items | (3,874) | 634 | (20,330) | 7,935 |
| Share of unrealized net loss (gain) on derivative financial instruments of joint ventures, net of related income tax (recovery) expense | 212 | 293 | 1,798 | (1,658) |
| | 7,120 | 9,670 | 5,133 | 17,984 |

## Payout Ratio

| | Trailing 12-months ended September 30 | |
|---|---|---|
| | 2014 | 2013 |
| Free Cash Flow[1] | 51,674 | 61,645 |
| Payout Ratio[1] | 113% | 89% |

1. For more information on the calculation and explanation of the Corporation's Free Cash Flow and Payout Ratio, please refer to the "Free Cash Flow and Payout Ratio" section.

For the trailing 12-month period ended September 30, 2014, the dividends on common shares declared by the Corporation corresponded to 113% of Free Cash Flow, compared with 89% for the corresponding prior 12-month period. The negative variation is due mainly to the decrease in Free Cash Flow, resulting from lower cash flows from operating activities before changes in non-cash operating working capital items and realized losses on derivative financial instruments, to greater scheduled debt principal payments and to the increase in dividends resulting from the higher number of common shares outstanding by virtue of the Dividend Reinvestment Plan and from the issuance of 4,027,051 common shares of the Corporation in June 2014 to pay for the acquisition of the SM-1 hydroelectric facility.

## Innergex and the In-SHUCK-ch Nation Sign a Partnership Agreement to Develop Six Hydro Projects in British Columbia

On August 12, 2014, the Corporation announced it had agreed with the In-SHUCK-ch Nation on commercial terms for a 50-50 partnership to develop six run-of-river hydroelectric projects. Totaling approximately 150 MW, these projects are spread on six creeks located within the Nation's traditional territories. The partners are currently in discussions with the Province of British Columbia and BC Hydro to explore ways to ensure the viability of these projects through long-term power purchase agreements with BC Hydro.

## Innergex Closes Tretheway Creek Hydroelectric Project Financing

On September 30, 2014, the Corporation closed a $92.9 million non-recourse construction and term project financing for the Tretheway Creek run-of-river hydroelectric project located in British Columbia. The loan will carry a fixed interest rate of 4.99%; upon the start of the project's commercial operation, it will convert into a 40-year term loan and the principal will begin to be amortized over a 35-year period, starting in the sixth year. The financing has been fully underwritten by National Bank Financial Inc. and Sun Life Assurance Company of Canada, with National Bank of Canada and Sun Life Assurance Company of Canada as lenders.

Concurrent with the closing of the financing, the Corporation settled the bond forward contracts used to hedge the interest rate prior to the close of the financing in order to protect the expected returns on the project, giving rise to an $8.4 million realized loss on derivative financial instruments. This is equivalent to a fixed interest rate of approximately 5.61% on the loan and well within the parameters of the economic model for this project. Please refer to the "Financial Position" section for more information.

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

## DEVELOPMENT PROJECTS

The Corporation currently has five projects that are expected to reach commercial operation between 2015 and 2016.

| PROJECTS UNDER CONSTRUCTION | Ownership % | Gross installed capacity (MW) | Expected COD[1] | Gross estimated LTA[2, 3] (GWh) | PPA term (years) | Total project costs | | Expected year-one | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Estimated[2] ($M) | As at Sept. 30 ($M) | Revenues[2] ($M) | Adjusted EBITDA[2] ($M) |
| *HYDRO (British Columbia)* | | | | | | | | | |
| Tretheway Creek | 100.0 | 21.2 | 2015 | 81.0 | 40 | 111.5 | 65.5 | 9.0 | 7.5 |
| Upper Lillooet River | 66.7 | 81.4 | 2016 | 334.0 | 40 | 315.0 [4] | 107.3 [4] | 33.0 [4] | 27.5 [4] |
| Boulder Creek | 66.7 | 25.3 | 2016 | 92.5 | 40 | 119.2 [4] | 31.0 [4] | 9.0 [4] | 7.5 [4] |
| Big Silver Creek | 100.0 | 40.6 | 2016 | 139.8 | 40 | 216.0 | 58.9 | 18.0 | 15.0 |
| | | 168.5 | | 647.3 | | 761.7 | 262.7 | 69.0 | 57.5 |

1. Commercial operation date.
2. This information is intended to inform readers of the projects' potential impact on the Corporation's results.
3. Upon commissioning, LTA figures may be updated to reflect design optimization or constraints or selection of different turbines. Actual results may vary. Please refer to the "Forward-Looking Information" section for more information.
4. Corresponding to 100% of this facility.

### Tretheway Creek

The construction of this hydroelectric facility began in October 2013. As at the date of this MD&A, construction of the intake and installation of the penstock were ongoing; pouring of the concrete for the powerhouse foundation was in progress; and design and procurement of electrical equipment had been finalized. On September 30, 2014, the Corporation closed a $92.9 million non-recourse construction and term project financing for the project. Please refer to the "Financial Position" section for more information.

### Upper Lillooet River and Boulder Creek (the "Upper Lillooet Hydro Project")

The construction of the Upper Lillooet River and Boulder Creek hydroelectric facilities began in October 2013. As at the date of this MD&A, clearing for the joint transmission line and pole installation were ongoing; construction of a 3.6 km access road to the Boulder Creek intake had been completed; excavation for both powerhouses as well as the Upper Lillooet diversion channel had been completed; pouring of the concrete for the Upper Lillooet River and Boulder Creek powerhouses was progressing; and excavation and consolidation of both tunnels were underway. In January 2014, a hedging program was for all intents and purposes completed to fix the interest rate for these projects' financing through the use of derivative financial instruments until closing of the project-level financing; this effectively eliminates the projects' exposure to interest rate fluctuations.

### Big Silver Creek

Construction of this hydroelectric facility began in June 2014. As of the date of this MD&A, excavation for the intake and penstock was ongoing; pouring of the concrete for the powerhouse had begun; procurement of the turbines was underway; and design and procurement of electrical equipment was under way. In January 2014, a hedging program was for all intents and purposes completed to fix the interest rate for this project's financing through the use of derivative financial instruments until closing of the project-level financing; this effectively eliminates the project's exposure to interest rate fluctuations.

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

| PROJECTS UNDER PERMIT PHASE | Ownership % | Gross installed capacity (MW) | Expected COD[1] | Gross estimated LTA[2,3] (GWh) | PPA term (years) | Total project costs | | Expected year-one | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Estimated[2] ($M) | As at Sept. 30 ($M) | Revenues[2] ($M) | Adjusted EBITDA[2] ($M) |
| *WIND (Quebec)* | | | | | | | | | |
| Mesgi'g Ugju's'n | 50.0 | 150.0 | 2016 | 515.0 | 20 | 365.0 [4] | 8.0 [4] | 55.0 [4] | 45.0 [4] |
| | | 150.0 | | 515.0 | | 365.0 | 8.0 | 55.0 | 45.0 |

1. Commercial operation date.
2. This information is intended to inform readers of the projects' potential impact on the Corporation's results.
3. Upon commissioning, LTA figures may be updated to reflect design optimization or constraints or selection of different turbines. Estimates for the Mesgi'g Ugju's'n project in particular are preliminary until the EPC contractor has been selected. Actual results may vary. Please refer to the “Forward-Looking Information” section for more information.
4. Corresponding to 100% of this facility.

**Mesgi'g Ugju's'n**

As at the date of this MD&A, a turbine supply contract had been signed with Senvion SE and the project had received its government decree, giving the green light for construction to begin. As a result, pre-construction activities are expected to begin during the fourth quarter of 2014 with tree clearing. The partners expect to select an EPC contractor during the first quarter of 2015. Construction is expected to start in 2015 and commercial operation is expected to begin at the end of 2016. In April 2014, a hedging program was for all intents and purposes completed to fix the interest rate for this project's financing through the use of derivative financial instruments until closing of the project-level financing; this effectively eliminates the project's exposure to interest rate fluctuations. The euro portion of the turbine supply contract has been hedged with a foreign exchange forward contract.

## PROSPECTIVE PROJECTS

With a combined potential net installed capacity of 2,900 MW (gross 3,125 MW), all the Prospective Projects are in the preliminary development stage. Some Prospective Projects are targeted toward specific future requests for proposals, such as the current request for proposals for 450 MW of new wind energy procurement in Quebec, an upcoming request for proposals for new wind and solar energy in Ontario expected in 2015, or Standing Offer Programs, while others will be available for future requests for proposals yet to be announced. There is no certainty that any Prospective Project will be realized.

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

## OPERATING RESULTS

Production of electricity for the third quarter was 97% of the long-term average due mainly to below-average water flows at several facilities.

For the third quarter, production increased 17%, revenues increased 14% and Adjusted EBITDA increased 11%, compared with the same period last year. The increase in production and revenues is attributable mainly to the addition of the Magpie hydroelectric facility acquired in July 2013, the addition of the Kwoiek Creek and Northwest Stave River facilities commissioned at the end of 2013 and the addition of the SM-1 hydroelectric facility acquired in June 2014. When compared with the increase in production, the smaller increase in revenues is attributable to the below-average selling price for electricity, which was expected following the addition of the Magpie and SM-1 facilities, for which the selling price is lower than for most other facilities of the Corporation. The smaller increase in Adjusted EBITDA is attributable production below the LTA and therefore less revenues to offset higher operating expenses related to the greater number of facilities in operation and higher prospective project expenses.

The Corporation's operating results for the three- and nine-month periods ended September 30, 2014, are compared with the operating results for the same periods in 2013.

### Electricity Production

When evaluating its operating results, a key performance indicator for the Corporation is to compare actual electricity generation with a long-term average ("LTA") for each hydroelectric facility, wind farm and solar farm. These long-term averages are determined to allow long-term forecasting of the expected power generation for each of the Corporation's facilities.

| Three months ended September 30 | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Production (MWh)[1] | LTA (MWh) | Production as a % of LTA | Average price ($/MWh)[2] | Production (MWh)[1] | LTA (MWh) | Production as a % of LTA | Average price ($/MWh)[2] |
| *HYDRO* | | | | | | | | |
| Quebec | 164,461 | 180,225 | 91% | 68.83 | 132,879 | 118,477 | 112% | 70.45 |
| Ontario | 13,892 | 8,233 | 169% | 65.20 | 9,163 | 8,233 | 111% | 65.23 |
| British Columbia | 479,461 | 519,156 | 92% | 75.14 | 389,329 | 396,259 | 98% | 75.15 |
| United States | 15,630 | 16,694 | 94% | 91.03 | 15,580 | 16,694 | 93% | 85.62 |
| Subtotal | 673,444 | 724,308 | 93% | 73.76 | 546,951 | 539,663 | 101% | 74.14 |
| *WIND* | | | | | | | | |
| Quebec | 139,972 | 112,803 | 124% | 79.68 | 145,269 | 112,804 | 129% | 79.12 |
| *SOLAR* | | | | | | | | |
| Ontario | 13,201 | 12,727 | 104% | 420.00 | 14,276 | 12,818 | 111% | 420.00 |
| Total | 826,617 | 849,838 | 97% | 80.29 | 706,496 | 665,285 | 106% | 82.15 |

1. The Umbata Falls hydroelectric facility and the Viger-Denonville wind farm are treated as joint ventures and accounted for using the equity method; their revenues are not included in the Corporation's consolidated revenues and, for the sake of consistency, their electricity production figures have been excluded from the production table. For more information on the Corporation's joint ventures, please refer to the "Investments in Joint Ventures" section.
2. Including all payment adjustments related to the month, day and hour of delivery, to environmental attributes and to the ecoENERGY Initiative, as applicable.

During the three-month period ended September 30, 2014, the Corporation's facilities produced 827 GWh of electricity or 97% of the LTA of 850 GWh. Overall, the hydroelectric facilities produced 93% of their LTA, due mainly to below-average water flows at several facilities in Quebec, British Columbia and the United States. Overall, the wind farms produced 124% of their LTA, due to above-average wind regimes. The Stardale solar farm produced 104% of its LTA, due to above-average solar regimes.

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

| Nine months ended September 30 | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Production (MWh)[1] | LTA (MWh) | Production as a % of LTA | Average price ($/MWh)[2] | Production (MWh)[1] | LTA (MWh) | Production as a % of LTA | Average price ($/MWh)[2] |
| *HYDRO* | | | | | | | | |
| Quebec | 421,775 | 438,176 | 96% | 75.18 | 324,190 | 299,704 | 108% | 83.65 |
| Ontario | 58,078 | 53,332 | 109% | 67.63 | 58,090 | 53,332 | 109% | 67.59 |
| British Columbia | 1,105,586 | 1,248,760 | 89% | 74.10 | 941,112 | 997,097 | 94% | 74.26 |
| United States | 42,330 | 41,577 | 102% | 75.17 | 39,111 | 41,577 | 94% | 71.79 |
| Subtotal | 1,627,769 | 1,781,845 | 91% | 74.18 | 1,362,503 | 1,391,710 | 98% | 76.14 |
| *WIND* | | | | | | | | |
| Quebec | 479,945 | 469,213 | 102% | 79.69 | 488,496 | 469,214 | 104% | 79.41 |
| *SOLAR* | | | | | | | | |
| Ontario | 34,833 | 32,617 | 107% | 420.00 | 34,208 | 32,851 | 104% | 420.00 |
| Total | 2,142,547 | 2,283,675 | 94% | 81.03 | 1,885,207 | 1,893,775 | 100% | 83.22 |

1. The Umbata Falls hydroelectric facility and the Viger-Denonville wind farm are treated as joint ventures and accounted for using the equity method; their revenues are not included in the Corporation's consolidated revenues and, for the sake of consistency, their electricity production figures have been excluded from the production table. For more information on the Corporation's joint ventures, please refer to the "Investments in Joint Ventures" section.
2. Including all payment adjustments related to the month, day and hour of delivery, to environmental attributes and to the ecoENERGY Initiative, as applicable.

During the nine-month period ended September 30, 2014, the Corporation's facilities produced 2,143 GWh of electricity or 94% of the LTA of 2,284 GWh. Overall, the hydroelectric facilities produced 91% of their LTA, due mainly to below-average water flows, especially in British Columbia. Overall, the wind farms produced 102% of their LTA, due mainly to above-average wind regimes during the first and third quarters, which more than offset the second quarter's below-average wind regimes. The Stardale solar farm produced 107% of its LTA, due mainly to above-average solar regimes.

The respective production increases of 17% and 14% for the three- and nine-month periods ended September 30, 2014, compared with the same periods last year, are attributable mainly to the addition of the Magpie hydroelectric facility acquired in July 2013, the addition of the Kwoiek Creek and Northwest Stave River facilities commissioned at the end of 2013 and the addition of the SM-1 hydroelectric facility acquired in June 2014.

The overall performance of the Corporation's facilities for the nine-month period ended September 30, 2014, demonstrates the benefits of geographic diversification and the complementarity of hydroelectric, wind and solar power generation.

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

## Financial Results

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| Revenues | 66,371 | 100.0% | 58,039 | 100.0% | 173,619 | 100.0% | 156,894 | 100.0% |
| Operating expenses | 9,968 | 15.0% | 8,185 | 14.1% | 28,638 | 16.5% | 22,902 | 14.6% |
| General and administrative expenses | 3,079 | 4.6% | 2,395 | 4.1% | 9,963 | 5.7% | 8,321 | 5.3% |
| Prospective project expenses | 1,656 | 2.5% | 771 | 1.3% | 4,204 | 2.4% | 2,320 | 1.5% |
| Adjusted EBITDA | 51,668 | 77.8% | 46,688 | 80.4% | 130,814 | 75.3% | 123,351 | 78.6% |
| Finance costs | 21,682 | | 17,279 | | 65,815 | | 49,057 | |
| Other net expenses (revenues) | 8,776 | | (158) | | 7,864 | | 427 | |
| Depreciation and amortization | 18,652 | | 17,093 | | 56,430 | | 52,006 | |
| Share of loss (earnings) of joint ventures[1] | 390 | | (816) | | 1,182 | | (4,522) | |
| Unrealized net loss (gain) on derivative financial instruments | 6,934 | | (2,404) | | 72,111 | | (33,560) | |
| (Recovery of) income tax expense | (248) | | 4,547 | | (15,776) | | 17,935 | |
| Net (loss) earnings | (4,518) | | 11,147 | | (56,812) | | 42,008 | |
| Net (loss) earnings attributable to: | | | | | | | | |
| Owners of the parent | (725) | | 10,786 | | (35,979) | | 41,885 | |
| Non-controlling interests | (3,793) | | 361 | | (20,833) | | 123 | |
| | (4,518) | | 11,147 | | (56,812) | | 42,008 | |
| Basic net (loss) earnings per share | (0.02) | | 0.09 | | (0.42) | | 0.38 | |

1. The Umbata Falls hydroelectric facility and Viger Denonville wind farm are treated as joint ventures and the Corporation's interests in these facilities are required to be accounted for using the equity method. For more information on the Corporation's joint ventures, please refer to the "Investments in Joint Ventures" section.

### Revenues

For the three-month period ended September 30, 2014, the Corporation recorded revenues of $66.4 million, compared with $58.0 million in 2013, corresponding to a 14% increase. For the nine-month period ended September 30, 2014, the Corporation recorded revenues of $173.6 million, compared with $156.9 million in 2013, corresponding to an 11% increase. For both the three- and nine-month periods, the increase in revenues is attributable mainly to the addition of the Magpie hydroelectric facility acquired in July 2013, the addition of the Kwoiek Creek and Northwest Stave River facilities commissioned at the end of 2013 and the addition of the SM-1 hydroelectric facility acquired in June 2014. Furthermore, when compared with the increase in production, the smaller increase in revenues is attributable to the lower average selling price for electricity, which was expected following the addition of the Magpie and SM-1 facilities, for which the selling price is lower than for most of the Corporation's other facilities.

### Expenses

*Operating expenses:* consist primarily of the operators' salaries, insurance premiums, expenditures related to operation and maintenance, property taxes, and royalties. For the the three- and nine-month periods ended September 30, 2014, the Corporation recorded operating expenses of $10.0 million and $28.6 million respectively ($8.2 million and $22.9 million respectively in 2013). This increase of 22% for the quarter and 25% for the nine-month period is due mainly to the Corporation operating a greater number of facilities in 2014 than in 2013 following the addition of the Magpie, Kwoiek Creek, Northwest Stave River and SM-1 hydroelectric facilities. In addition, the aggregate payment in respect of water rights for the Fire Creek, Lamont Creek, Stokke Creek, Tipella Creek and Upper Stave River facilities increased by $0.6 million for the third quarter and $1.9 million for the nine-month period, compared with the same periods last year. This change resulted from a unilateral decision by British Columbia's Ministry of Forests, Lands and Natural Resource Operations in 2013 to apply higher rental rates based on the combined production of these facilities rather than applying lower rates for each facility based on its individual production, as had previously been its practice. The Corporation has filed an appeal of this decision with the Environmental Appeal Board.

*General and administrative expenses:* consist primarily of salaries, professional fees and office expenses. For the three- and nine-month periods ended September 30, 2014, general and administrative expenses totalled $3.1 million and $10.0 million respectively ($2.4 million and $8.3 million respectively in 2013). This increase of 29% for the quarter and 20% for the nine-month period reflects the Corporation's greater number of facilities in operation, greater number of employees and normal salary increases.

*Prospective project expenses:* include the costs incurred for the development of Prospective Projects. They result from the number of Prospective Projects that the Corporation chooses to advance and the resources required to do so. For the three- and nine-month periods ended September 30, 2014, prospective project expenses totalled $1.7 million and $4.2 million respectively ($0.8 million and $2.3 million respectively in 2013). This increase of 115% for the quarter and 81% for the nine-month period is related mainly to the current request for proposals in Quebec and the upcoming request for proposals in Ontario.

**Adjusted EBITDA**

When evaluating its financial results, a key performance indicator for the Corporation is to measure Adjusted EBITDA, which is defined as revenues less operating expenses, general and administrative expenses and prospective project expenses.

For the three- and nine-month periods ended September 30, 2014, the Corporation recorded Adjusted EBITDA of $51.7 million and $130.8 million respectively, compared with $46.7 million and $123.4 million respectively for the same periods last year. When compared with the increases in production and revenues described above, the smaller increases in Adjusted EBITDA of 11% for the quarter and 6% for the nine-month period are due mainly to the higher operating, general and administrative expenses related to the greater number of facilities in operation, and to higher prospective project expenses, neither of which are directly correlated to production levels. Consequently, production below the LTA resulted led to a drop in Adjusted EBITDA Margin from 80.4% to 77.8% for the quarter and from 78.6% to 75.3% for the nine-month period.

**Finance Costs**

Finance costs include interest on long-term debt and convertible debentures, inflation compensation interest, amortization of financing fees, amortization of the revaluation of long-term debt and convertible debentures, accretion expenses on other liabilities and other finance costs. For the three- and nine-month periods ended September 30, 2014, finance costs totalled $21.7 million and $65.8 million respectively ($17.3 million and $49.1 million respectively in 2013). These increases are due mainly to the expensing of interest on the Kwoiek Creek and Northwest Stave River loans now that the facilities are in operation, to the addition of project-level debt related to the Magpie acquisition in July 2013 and the SM-1 acquisition in June 2014, to greater inflation compensation interest on the real return bonds owing to higher inflation during these periods compared with the same periods last year, and to higher interest expense on the higher project-level debt for the Carleton wind farm refinanced in June 2013.

As at September 30, 2014, 90% of the Corporation's outstanding debt, including convertible debentures, was fixed or hedged against interest rate movements (97% as at September 30, 2013). The decrease stems from the increased drawings on the revolving term credit facility to pay for construction costs prior to closing the financing for the five Development Projects.

The effective all-in interest rate on the Corporation's debt and convertible debentures was 5.25% as at September 30, 2014 (5.57% as at September 30, 2013). The decrease stems mainly from a lower interest rate on the revolving term credit facility, the addition of the Northwest Stave River loan, which bears a low fixed-interest rate of 5.30%, the addition of the Magpie project debt, which bears an all-in interest rate of 4.48%, the addition of the SM-1 project debt, which bears a low fixed interest rate of 3.30% following its adjustment to fair market value upon consolidation. These items were partly offset by the refinancing in June 2013 of the Carleton loan at a higher all-in interest rate of 5.41% (4.84% previously), which has been hedged by an interest-rate swap contract since November 2008, and by the addition of the debenture on the SM-1 facility, which bears an interest rate of 8.00%.

**Other Net Expenses (Revenues)**

Other net expenses or revenues include transaction costs, realized losses on derivative financial instruments, realized losses on foreign exchange, gain on contingent considerations, loan impairment, settlement of claims received in connection with an acquisition and other net revenues. For the three- and nine-month periods ended September 30, 2014, the Corporation recorded other net expenses of $8.8 million and $7.9 million respectively (other net revenues of $0.2 million and expenses of $0.4 million respectively in 2013). The change in the third quarter stems mainly from the realized loss on derivative financial instruments of $8.4 million related to the settlement of the Tretheway Creek bond forward contracts concurrently with the closing of the long-term financing for this project. This loss is a result of a decrease in benchmark interest rates between the date the bond forwards were entered into (between August and September 2013) and the settlement date (September 30, 2014) and is compensated for by the Tretheway Creek low fixed interest rate of 4.99% for its 40-year term loan. The change for the nine-month period stems mainly from the larger realized loss on the Tretheway Creek bond forwards in 2014, compared with the realized loss on the Northwest Stave River bond forwards in 2013, and from a $2.0 million claims settlement received in the first quarter of 2013.

**Depreciation and Amortization**

For the three- and nine-month periods ended September 30, 2014, depreciation and amortization expenses totalled $18.7 million and $56.4 million respectively ($17.1 million and $52.0 million respectively in 2013). These increases are attributable mainly to the larger asset base resulting from the addition of the Magpie and SM-1 hydroelectric facilities and the start of operations of the Kwoiek Creek and Northwest Stave River hydroelectric facilities.

**Share of (Loss) Earnings of Joint Ventures**

For the three- and nine-month periods ended September 30, 2014, the Corporation recorded a share of loss of joint ventures of $0.4 million and $1.2 million respectively (share of earnings of joint ventures of $0.8 million and $4.5 million respectively in 2013). Please refer to the "Investments in Joint Ventures" section for more information.

**Derivative Financial Instruments**

The Corporation uses derivative financial instruments to manage its exposure to the risk of rising interest rates on its existing and upcoming debt financing (“Derivatives”), thereby protecting the economic value of its projects. Innergex also has derivative financial instruments embedded in some of its PPAs (the minimum 3% inflation clause applied to the selling price). The Corporation does not use hedge accounting for its derivative financial instruments nor does it own or issue financial instruments for speculative purposes. Since bond forwards are linked to long-term bonds and interest rate swaps are entered into for a term equal in length to the underlying debt amortization schedule, which can reach 30 years, a Derivative's fair market value can be very sensitive to quarter-to-quarter changes in long-term interest rates.

For the three- and nine-month periods ended September 30, 2014, the Corporation recognized an unrealized net loss on derivative financial instruments of $6.9 million and $72.1 million respectively, due mainly to the decrease in benchmark interest rates since the end of 2013. For the corresponding periods of 2013, Innergex recognized an unrealized net gain on derivative financial instruments of $2.4 million and $33.6 million respectively, due mainly to the increase in benchmark interest rates since December 31, 2012.

In January 2014, the Corporation completed a hedging program to fix the interest rate on future project-level debt for the Upper Lillooet River, Boulder Creek, Tretheway Creek and Big Silver Creek Development Projects. In April 2014, the Corporation and its partner completed a hedging program to fix the interest rate on the future project-level debt for the Mesgi'g Ugju's'n Development Project. In September 2014, the Corporation closed a $92.9 million financing and concurrently settled the corresponding bond forward contracts for the Tretheway Creek hydroelectric project . As at the date of this MD&A, the Corporation had entered into derivative financial instruments totalling $535.0 million. Upon the closing of each fixed-rate or interest-swapped long-term financing, the Corporation will settle the corresponding derivative financial instruments, which will result in a realized gain or loss on derivative financial instruments. These gains or losses will serve to offset a higher or lower interest rate on the project-level debt. In the case of the Tretheway Creek project financing, the realized net loss of $8.4 million is offset by the lower interest rate of 4.99% on the project debt. As at September 30, 2014, the Derivatives to be settled upon the closing of financing had a negative market value of $49.8 million.

**(Recovery of) Income Tax Expense**

For the three- and nine-month periods ended September 30, 2014, the Corporation recorded a current income tax expense of $0.9 million and $2.5 million respectively ($0.9 million and $2.6 million in 2013) and deferred income tax recovery of $1.2 million and $18.3 million respectively (expense of $3.6 million and $15.4 million in 2013). The difference in the deferred income tax for these periods is due primarily to a realized loss and an unrealized net loss on derivative financial instruments, compared with a lower realized loss and an unrealized net gain on derivative financial instruments for the same periods last year.

**Net (Loss) Earnings**

For the three-month period ended September 30, 2014, the Corporation recorded a net loss of $4.5 million (basic and diluted net loss of $0.02 per share), compared with net earnings of $11.1 million (basic and diluted net earnings of $0.09 per share) in 2013. For the nine-month period ended September 30, 2014, the Corporation recorded a net loss of $56.8 million (basic and diluted net loss of $0.42 per share), compared with a net earnings of $42.0 million (basic and dmiluted net earnings of $0.38 per share) in 2013.

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

| Main items contributing to the net loss for the three months ended September 30, 2014, compared with the net earnings for the corresponding period in 2013 | | |
|---|---|---|
| Main items – Positive impact | Change | Explanation |
| Revenues | 8,332 | Due mainly to the increase in production from the greater number of facilities in operation. |
| Deferred recovery of income tax | 4,790 | Due mainly to a realized loss and an unrealized net loss on derivative financial instruments in 2014, compared with an unrealized net gain on derivative financial instruments in 2013. |
| Main items – Negative impact | Change | Explanation |
| Unrealized net loss on derivative financial instruments | 9,338 | Due mainly to a decrease in benchmark interest rates during the quarter, compared with an increase in benchmark interest rates during the same period last year. |
| Other net expenses (revenues) | 8,934 | Due mainly to a realized net loss on derivatives resulting from the settlement of the Tretheway Creek bond forwards upon closing of the project financing. |
| Finance costs | 4,403 | Due mainly to the expensing of interest on the Kwoiek Creek and Northwest Stave River loans following their commissioning, the addition of project-level debt related to Magpie and SM-1 and higher inflation compensation interest on the real return bond. |

| Main items contributing to the net loss for the nine months ended September 30, 2014, compared with the net earnings for the corresponding period in 2013 | | |
|---|---|---|
| Main items – Positive impact | Change | Explanation |
| Revenues | 16,725 | Due mainly to the increase in production from the greater number of facilities in operation. |
| Deferred recovery of income tax | 33,644 | Due mainly to a realized loss and an unrealized net loss on derivative financial instruments in 2014, compared with a smaller realized loss and an unrealized net gain on derivative financial instruments in 2013. |
| Main items – Negative impact | Change | Explanation |
| Unrealized net loss on derivative financial instruments | 105,671 | Due mainly to a decrease in benchmark interest rates during the nine-month period, compared with an increase in benchmark interest rates during the same period last year. |
| Finance costs | 16,758 | Due mainly to the expensing of interest on the Kwoiek Creek and Northwest Stave River loans following their commissioning, the addition of project-level debt related to Magpie and SM-1 and higher inflation compensation interest on the real return bond. |
| Other net expenses (revenues) | 7,437 | Due mainly to a greater realized net loss on derivatives resulting from the settlement of the Tretheway Creek bond forwards upon closing of the project financing during the third quarter of 2014, compared with the realized net loss on the Northwest Stave River bond forwards during the second quarter of 2013. |

**Non-controlling Interests**

Non-controlling interests are related to the six hydroelectric facilities of the Harrison Hydro Limited Partnership, the Creek Power Inc. subsidiaries, the Kwoiek Creek Resources Limited Partnership, the Mesgi'g Ugju's'n (MU) Wind Farm, L.P., the Magpie Limited Partnership, the Innergex Sainte-Marguerite S.E.C. entity and their respective general partners. For the three- and nine-month periods ended September 30, 2014, the Corporation allocated losses of $3.8 million and $20.8 million respectively to non-controlling interests (earnings of $0.4 million and earnings of $0.1 million respectively in 2013). Please refer to the "Non-Wholly Owned Subsidiaries" section for more information.

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

**Number of Shares Outstanding**

| Weighted average number of common shares outstanding (000s) | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Weighted average number of common shares | 100,326 | 94,922 | 97,571 | 94,405 |
| Effect of dilutive elements on common shares[1] | 221 | — | 192 | 54 |
| Diluted weighted average number of common shares | 100,547 | 94,922 | 97,763 | 94,459 |

1. For the three-month period ended September 30, 2014, 1,243,000 of 3,073,684 stock options (2,736,684 of 2,736,684 in 2013) and 7,558,684 shares that can be issued on conversion of convertible debentures (7,558,684 in 2013) were excluded from the calculation of diluted weighted average number of shares outstanding as the exercise price was above the common shares' average market price.

   For the nine-month period ended September 30, 2014, 1,243,000 of 3,073,684 stock options (2,073,420 of 2,736,684 in 2013) and 7,558,684 shares that can be issued on conversion of convertible debentures (7,558,684 in 2013) were excluded from the calculation of the diluted weighted average number of shares outstanding as the exercise price was above the common shares' average market price.

As at September 30, 2014, the Corporation had a total of 100,372,867 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares, 2,000,000 Series C Preferred Shares and 3,073,684 stock options outstanding. As at September 30, 2013, it had 95,014,255 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares, 2,000,000 Series C Preferred Shares and 2,736,684 stock options outstanding. The increase in the number of common shares since September 30, 2013, is attributable mainly to the issuance of 4,027,051 shares following the SM-1 acquisition and to the Dividend Reinvestment Plan ("DRIP").

As at the date of this MD&A, the Corporation had a total of 100,672,000 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares, 2,000,000 Series C Preferred Shares and 3,073,684 stock options outstanding. The increase in the number of common shares since September 30, 2014, is attributable to the DRIP.

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

## LIQUIDITY AND CAPITAL RESOURCES

For the nine-month period ended September 30, 2014, the Corporation generated cash flows from operating activities of $57.3 million, compared with $86.8 million generated for the same period last year. During this period, the Corporation generated funds from financing activities of $99.0 million and used funds for investing activities of $143.6 million, mainly to pay for the construction of its five Development Projects and the acquisition of the SM-1 hydroelectric facility. As at September 30, 2014, the Corporation had cash and cash equivalents amounting to $47.1 million, compared with $34.3 million as at December 31, 2013.

### Cash Flows from Operating Activities

For the nine-month period ended September 30, 2014, cash flows generated by operating activities totalled $57.3 million ($86.8 million generated in 2013). The change is attributable mainly to higher finance costs and a negative net change of $16.6 million in non-cash operating working capital items.

### Cash Flows from Financing Activities

For the nine-month period ended September 30, 2014, cash flows generated by financing activities totalled $99.0 million ($8.8 million in 2013). The change is attributable mainly to a net increase in long-term debt of $140.6 million, reflecting drawings on the revolving term credit facility to pay for construction activity of the five Development Projects.

| Use of Financing Proceeds | Nine months ended September 30 | |
|---|---|---|
| | 2014 | 2013 |
| Proceeds from issuance of long-term debt | 224,266 | 167,414 |
| Payment of issuance cost of common and preferred shares | (83) | (353) |
| Generation of financing proceeds | 224,183 | 167,061 |
| Repayment of long-term debt | (83,419) | (122,015) |
| Payment of deferred financing costs | (252) | (2,933) |
| Payment of other liabilities | (112) | — |
| Cash acquired on business acquisitions | — | 1,885 |
| Business acquisitions | (37,901) | (28,577) |
| Decrease of restricted cash and short-term investments | 20,917 | 30,186 |
| Loans to related parties | — | (576) |
| Net funds withdrawn from (invested into) the reserve accounts | 7,141 | 46 |
| Additions to property, plant and equipment | (138,383) | (65,367) |
| Additions to intangible assets | — | (14,758) |
| Additions to project development costs | (23,435) | (15,078) |
| Withdrawals from (investments in) joint ventures | 2,259 | (2,922) |
| Reductions (additions) to other long-term assets | 25,660 | (439) |
| Net use of financing proceeds | (227,525) | (220,548) |
| Reduction of working capital | (3,342) | (53,487) |

During the nine-month period ended September 30, 2014, the Corporation borrowed $224.3 million to pay for construction of the Upper Lillooet River, Boulder Creek, Tretheway Creek, and Big Silver Creek projects, for the pre-construction development of the Mesgi'g Ugju's'n project and for the acquisition of the SM-1 hydroelectric facility and to repay long-term debts; it also used $20.9 million in restricted cash to pay for construction costs related to the Kwoiek Creek and Northwest Stave River facilities. During the corresponding period of 2013, the Corporation borrowed $167.4 million and used $53.5 million of its working capital to pay for the construction of the Gros-Morne, Kwoiek Creek and Northwest Stave River projects, to pay for the pre-construction activities related to its Development Projects and to repay long-term debts and to reduce drawings under the revolving term credit facility.

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

### Cash Flows from Investing Activities

For the nine-month period ended September 30, 2014, cash flows used by investing activities amounted to $143.6 million ($95.5 million in 2013). During this period, additions to property, plant and equipment accounted for a $138.4 million outflow ($65.4 million outflow in 2013), additions to project development costs accounted for a $23.4 million outflow ($15.1 million outflow in 2013) and the acquisition of the SM-1 hydroelectric facility accounted for a $37.9 million outflow ($28.6 million outflow in 2013 for the acquisition of Magpie). These items were partly offset by a decrease in other long-term assets, which accounted for a $25.7 million inflow ($0.4 million outflow in 2013) and due mainly to the reimbursement of the loan to the seller of SM-1, by a decrease in restricted cash and short-term investments, which accounted for a $20.9 million inflow ($30.2 million inflow in 2013), by a withdrawal of funds from the reserve accounts, which accounted for a $7.1 million inflow (nil in 2013), and by a reduction in investments in joint ventures, which accounted for a $2.3 million inflow ($2.9 million outflow in 2013).

### Cash and Cash Equivalents

For the nine-month period ended September 30, 2014, cash and cash equivalents increased by $12.8 million (no change in 2013) as a net result of its operating, financing and investing activities. As at September 30, 2014, the Corporation had cash and cash equivalents amounting to $47.1 million ($34.3 million as at December 31, 2013).

## DIVIDENDS

The following dividends were declared by the Corporation:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Dividends declared on common shares[1] | 15,056 | 13,777 | 44,448 | 41,097 |
| Dividends declared on common shares ($/share)[1] | 0.1500 | 0.1450 | 0.4500 | 0.4350 |
| Dividends declared on Series A Preferred Shares | 1,063 | 1,063 | 3,188 | 3,188 |
| Dividends declared on Series A Preferred Shares ($/share) | 0.3125 | 0.3125 | 0.9375 | 0.9375 |
| Dividends declared on Series C Preferred Shares[2] | 719 | 719 | 2,157 | 2,422 |
| Dividends declared on Series C Preferred Shares ($/share)[2] | 0.359375 | 0.359375 | 1.078125 | 1.211050 |

1. On February 25, 2014, the Board of Directors increased the annual dividend that the Corporation intends to distribute from $0.58 to $0.60 per common share, payable quarterly. On June 20, 2014, the Corporation issued 4,027,051 new common shares to pay for the acquisition of the SM-1 hydroelectric facility.
2. The initial dividend payment in the first quarter of 2013 was higher to reflect dividends accrued since the closing date of the Series C Preferred Share offering of December 11, 2012. The regular quarterly dividend amount is $0.359375.

The following dividends will be paid by the Corporation on January 15, 2015:

| Date of announcement | Record date | Payment date | Dividend per common share ($) | Dividend per Series A Preferred Share ($) | Dividend per Series C Preferred Share ($) |
|---|---|---|---|---|---|
| 11/6/2014 | 12/31/2014 | 1/15/2015 | 0.1500 | 0.3125 | 0.359375 |

## FINANCIAL POSITION

As at September 30, 2014, the Corporation had $2,602 million in total assets, $1,998 million in total liabilities, including $1,527 million in long-term debt, and $604 million in shareholders' equity.

Also at September 30, 2014, the Corporation had a working capital ratio of 0.79:1.00 (1.18:1.00 as at December 31, 2013). In addition to cash and cash equivalents amounting to $47.1 million, the Corporation had restricted cash and short-term investments of $28.8 million and reserve accounts of $40.7 million at the end of the quarter.

The explanations below highlight the most significant changes in balance sheet items during the nine-month period ended September 30, 2014.

### Assets

**Highlights of significant changes in total assets during the nine-month period ended September 30, 2014**

- An $8.1 million net decrease in cash and cash equivalents and restricted cash and short-term investments, due mainly to amounts being drawn to pay for construction of the Kwoiek Creek and Northwest Stave River projects;
- A $16.5 million increase in accounts receivable, as explained in the "Working Capital Items" section below;
- A $255.1 million increase in property, plant and equipment, due mainly to construction of the Tretheway Creek, Boulder Creek, Upper Lillooet River and Big Silver Creek projects and to the addition of the SM-1 hydroelectric facility acquired in June 2014;
- A $27.0 million increase in intangible assets, due mainly to the transfer of the Big Silver Creek project out of project development costs and into property, plant and equipment and intangible assets now that construction of the project has begun and to the addition of the SM-1 hydroelectric facility acquired in June 2014;
- A $22.4 million decrease in project development costs, due mainly to the transfer of the Big Silver Creek project out of project development costs and into property, plant and equipment and intangible assets now that construction of the project has begun; and
- A $25.7 million decrease in other long-term assets, due mainly to the reimbursement of the $25.0 million loan to the seller of SM-1, plus accrued interest, concurrent with the closing of the acquisition of the SM-1 hydroelectric facility in June 2014.

#### Working Capital Items

As at September 30, 2014, working capital was negative at $33.2 million with a working capital ratio of 0.79:1.00. As at December 31, 2013, working capital was positive at $19.1 million with a working capital ratio of 1.18:1.00. The decrease in the working capital ratio over this period is due to a decrease of $20.9 million in restricted cash and short-term investments and a decrease of $6.8 million in loans to related parties, to an increase of $49.3 million in the current liability portion of derivative financial instruments and to an increase of $6.6 million in the current portion of long-term debt, which are explained separately below. These items were partly offset by a $16.5 million increase in accounts receivable, a $12.8 million increase in cash and cash equivalents and a $6.1 million decrease in accounts payable, also explained separately below.

The Corporation considers its current level of working capital to be sufficient to meet its needs. The Corporation can also use its $425.0 million revolving term credit facility if necessary. As at September 30, 2014, the Corporation had drawn US$13.9 million and $289.3 million as cash advances, while $32.2 million had been used for issuing letters of credit.

*Restricted cash and short-term investments:* are related to the Harrison Hydro L.P., the Kwoiek Creek loan and the Northwest Stave River loan. As at September 30, 2014, restricted cash and short-term investments amounted to $28.8 million, of which $6.0 million was related to the Harrison Hydro L.P., $18.4 million to the Kwoiek Creek loan and $4.5 million to the Northwest Stave River loan ($49.7 million as at December 31, 2013, of which $6.7 million was related to the Harrison Hydro L.P., $31.5 million to the Kwoiek Creek loan and $11.6 million to the Northwest Stave River loan). The decrease stems mainly from amounts being drawn to pay for construction of the Kwoiek Creek and Northwest Stave River projects.

*Accounts receivable:* increased from $19.8 million as at December 31, 2013, to $36.3 million as at September 30, 2014, due mainly to revenues generated.

*Loans to related parties:* decreased from $6.8 million as at December 31, 2013, to nil as at September 30, 2014, as the Harrison Hydro L.P. completed a distribution during the first quarter of 2014 that resulted in a $6.8 million decrease in loans to related parties and a corresponding decrease in non-controlling interests with no impact on net earnings or cash flows.

*Accounts payable and other payables:* decreased from $48.3 million as at December 31, 2013, to $42.2 million as at September 30, 2014, due mainly to payments made in relation to the construction of the Kwoiek Creek and Northwest Stave River facilities.

*Derivative financial instruments included in current liabilities:* increased from $12.9 million as at December 31, 2013, to $62.2 million as at September 30, 2014, due mainly to the increase in bond forward contracts entered into to hedge the interest rate on future project-level financing for the Development Projects, and to the decrease in benchmark interest rates since December 31, 2013. These short-term derivatives will be refinanced upon closing of the long-term project-level debt in the coming months.

*Portion of long-term debt included in current liabilities:* increased from $26.6 million as at December 31, 2013, to $33.2 million as at September 30, 2014, due mainly to the addition of the SM-1 project-level debt and to a cash call from the Harrison Hydro L.P. to its limited partners during the second quarter of 2014.

**Reserve Accounts**

Reserve accounts consist of a 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 regime and to other unpredictable events, and a major maintenance reserve, established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity. The Corporation had $39.8 million in reserve accounts as at September 30, 2014, compared with $45.8 million as at December 31, 2013. The decrease stems mainly from the replacement of certain reserves with less costly letters of credit.

**Property, Plant and Equipment**

Property, plant and equipment are comprised mainly of hydroelectric facilities, wind farms and a solar farm that are either in operation or under construction. They are recorded at cost less accumulated depreciation and accumulated impairment losses. The Corporation had $1,839 million in property, plant and equipment as at September 30, 2014, compared with $1,583 million as at December 31, 2013. The increase stems mainly from the ongoing construction of the Upper Lillooet River, Boulder Creek and Tretheway Creek projects, from the transfer out of project development costs and ongoing construction of the Big Silver Creek project and from the addition of the SM-1 hydroelectric facility acquired in June 2014. This increase was partly offset by depreciation.

**Intangible Assets**

Intangible assets consist of various power purchase agreements, permits and licenses. They also include the extended warranty for the Montagne Sèche and Gros-Morne wind farm turbines. The Corporation had $493.1 million in intangible assets as at September 30, 2014, compared with $466.1 million as at December 31, 2013. The increase stems mainly from the transfer of $23.2 million in intangible assets related to the Big Silver Creek project out of project development costs now that construction of the project has begun and from the addition of $19.2 million in intangible assets related to the SM-1 hydroelectric facility acquired in June 2014. The increase was partly offset by amortization.

**Project Development Costs**

Project development costs are the costs to acquire and develop Development Projects and to acquire Prospective Projects. Depending on their nature, these costs are transferred either to property, plant and equipment or to intangible assets once the project reaches the construction phase. The Corporation had $59.3 million in project development costs as at September 30, 2014, compared with $81.6 million as at December 31, 2013. The decrease stems mainly from the transfer of the Big Silver Creek project out of project development costs and into property, plant and equipment and intangible assets now that construction of the project has begun.

**Other Long-Term Assets**

Other long-term assets consist of security deposits, investments and loans to third parties. The Corporation had $7.6 million in other long-term assets as at September 30, 2014, compared with $33.2 million as at December 31, 2013. The decrease stems mainly from the reimbursement of the $25.0 million loan to the seller of SM-1, plus accrued interest, concurrent with the closing of the acquisition of the SM-1 hydroelectric facility in June 2014.

## Liabilities and Shareholders' Equity

**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. The Corporation does not own or issue any Derivatives for speculation purposes. The Corporation does not use hedge accounting to account for its Derivatives. Interest rate swap contracts allow the Corporation to eliminate the risk of interest rate increases in actual floating-rate debts, which debts totalled $475.8 million as at September 30, 2014. Consequently, as at September 30, 2014, interest rate swaps related to outstanding debts combined with the $892.6 million in existing fixed-rate debts and $80.0 million in convertible debentures mean that 90% of outstanding debts, including those of joint ventures, are protected from interest rate increases.

In addition, bond forward contracts allow the Corporation to eliminate the risk of interest rate increases in planned long-term debt that it will need to secure for its Development Projects. As at the date of this MD&A, the Corporation had entered into bond forward contracts totalling $535.0 million ($340.0 million as at December 31, 2013) for the Upper Lillooet River, Boulder Creek, Big Silver Creek and Mesgi'g Ugju's'n Development Projects. Upon the closing of each fixed-rate or interest-swapped long-term financing, the Corporation will settle the corresponding derivative financial instruments, which will result in a realized gain or loss on derivative financial instruments. These gains or losses will serve to offset a higher or lower interest rate on the project-level debt. In September 2014, the Corporation closed a $92.9 million financing for the Tretheway Creek hydroelectric project. The concurrent settlement of the Tretheway Creek bond forward contracts gave rise to a realized loss on derivative financial instruments of $8.4 million. This loss is a result of a decrease in benchmark interest rates between the date the bond forwards were entered into (between August and September 2013) and the settlement date (September 30, 2014) and is compensated by the low fixed interest rate of 4.99% for this 40-year term loan. As at September 30, 2014, the Derivatives to be settled upon closing of the project financings had a negative market value of $49.8 million.

Derivatives had a net negative value of $95.9 million at September 30, 2014 (negative $24.4 million at December 31, 2013). This change is due mainly to a decrease in benchmark interest rates since the end of 2013. These figures exclude the impact of derivatives used to hedge loans of the Corporation's joint ventures. For information on the impact of derivative financial instruments used in the Corporation's joint ventures, please refer to the "Investments in Joint Ventures" section.

**Accrual for Acquisition of Long-Term Assets**

Accrual for acquisition of long-term assets consists of long-term debt commitments that have been secured and will be drawn to finance the Corporation's projects currently under construction or under development. As at September 30, 2014, accrual for acquisition of long-term assets totalled $35.9 million ($9.9 million as at December 31, 2013). The $26.1 million increase results mainly from expenses accruing for the Tretheway Creek, Boulder Creek, Upper Lillooet River and Big Silver Creek projects currently under construction.

**Long-Term Debt**

As at September 30, 2014, long-term debt totalled $1,527 million ($1,340 million as at December 31, 2013). The $186.7 million increase results mainly from the addition of the SM-1 debts in the amount of $78.4 million and from drawings under the revolving term credit facility to fund construction costs of the Upper Lillooet River, Boulder Creek, Tretheway Creek and Big Silver Creek projects and pre-construction development costs of the Mesgi'g Ugju's'n project until the project-level financing for each of these projects is secured and the revolving term credit facility can be paid down. This increase was partly offset by the scheduled repayment of project-level debts and the reduction of drawings under the revolving term credit facility with the reimbursement of the $25.0 million loan to the seller of SM-1, plus accrued interest of $3.5 million. The SM-1 debts consist of $37.5 million in project-level debt carrying an interest rate of 3.3% and a $40.9 million debenture carrying an interest rate of 8.0%. The amount of project-level debt for the SM-1 hydroelectric facility reflects its adjustment to fair market value upon consolidation.

Since the beginning of the 2014 fiscal year, the Corporation and its subsidiaries have met all the financial and non-financial conditions related to their credit agreements, trust indentures and PPAs. Were they not met, certain financial and non-financial covenants included in the credit agreements or trust indentures 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.

**Shareholders' Equity**

As at September 30, 2014, the Coroporation's shareholders' equity totalled $603.9 million, including $56.1 million of non-controlling interests, compared with $665.9 million, including $81.4 million of non-controlling interests, as at December 31, 2013. This $62.0 million decrease in total shareholders' equity is attributable mainly to the recognition of a $56.8 million net loss and to dividends declared on preferred and common shares of $49.8 million, partly offset by the issuance to the seller of SM-1 of 4,027,051 common shares of the Corporation at a price of $10.36 per share in June 2014 to pay for the acquisition of the SM-1 hydroelectric facility, giving total net proceeds of $41.7 million.

**Off-Balance-Sheet Arrangements**

As at September 30, 2014, the Corporation had issued letters of credit totalling $44.4 million to meet its obligations under its various PPAs and other agreements. Of this amount, $32.2 million was issued under its revolving term credit facility and the remainder under the projects' non-recourse credit facilities. As at that date, Innergex had also issued a total of $11.0 million in corporate guarantees to support the construction of the Gros-Morne wind farm and the performance of the Brown Lake hydroelectric facility.

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

## FREE CASH FLOW AND PAYOUT RATIO

### Free Cash Flow

When evaluating its operating results, a key performance indicator for the Corporation is the cash flows available for distribution to common shareholders and for reinvestment to fund the Corporation's growth. Free Cash Flow is a non-IFRS measure that the Corporation calculates as cash flows from operations before changes in non-cash operating working capital items, less maintenance capital expenditures net of proceeds from disposals, scheduled debt principal payments and preferred share dividends declared. It also subtracts the portion of Free Cash Flow attributed to non-controlling interests regardless of whether an actual distribution to non-controlling interests is made in order to reflect the fact that such distribution may not occur in the period the Free Cash Flow is generated, and adds back cash receipts by the Harrison Hydro L.P. for the wheeling services to be provided to other facilities owned by the Corporation over the course of their PPAs. The Corporation also adjusts for other elements that represent cash inflows or outflows that are not representative of the Corporation's long-term cash generating capacity. Such adjustments include adding back transaction costs related to realized acquisitions (which are financed at the time of the acquisition) and adding back realized losses or subtracting realized gains on derivate financial instruments used to hedge the interest rate on project-level debt prior to securing such debt.

| Free Cash Flow and Payout Ratio calculation | Trailing 12-months ended September 30 | |
|---|---|---|
| | 2014 | 2013 |
| Cash flows from operating activities | 92,798 | 150,909 |
| *(Subtract) Add the following items:* | | |
| Changes in non-cash operating working capital items | (13,705) | (56,548) |
| Maintenance capital expenditures net of proceeds from disposals | (2,822) | (2,136) |
| Scheduled debt principal payments | (28,426) | (25,148) |
| Free Cash Flow attributed to non-controlling interests[1] | (96) | (8,069) |
| Dividends declared on Preferred shares | (7,125) | (6,673) |
| Cash receipt for wheeling services to be provided by the Harrison Hydro L.P. to other facilities[2] | 2,092 | 4,916 |
| *Adjust for the following elements:* | | |
| Transaction costs related to realized acquisitions | 592 | 1,135 |
| Realized losses on derivative financial instruments | 8,366 | 3,259 |
| Free Cash Flow | 51,674 | 61,645 |
| Dividends declared on common shares | 58,318 | 54,678 |
| Payout Ratio - before the impact of the DRIP | 113% | 89% |
| Dividends declared on common shares and paid in cash[3] | 48,127 | 36,603 |
| Payout Ratio - after the impact of the DRIP | 93% | 59% |

1. The portion of Free Cash Flow attributed to non-controlling interests is subtracted, regardless of whether or not an actual distribution to non-controlling interests is made, in order to reflect the fact that such distributions may not occur in the period they are generated.
2. The $2.1 million and $4.9 million represent cash receipts by the Harrison Hydro L.P. for the wheeling services to be provided to the Tretheway Creek and Northwest Stave River facilities respectively, 49.99% of which was included in the Free Cash Flow attributed to non-controlling interests.
3. Represents dividends declared on common shares outstanding that were not registered in the DRIP at the time of the declaration; the dividends declared on common shares registered in the DRIP were paid in common shares.

For the trailing 12-month period ended September 30, 2014, the Corporation generated Free Cash Flow of $51.7 million, compared with $61.6 million for the same period last year. This decrease is due mainly to lower cash flows from operating activities before changes in non-cash operating working capital items and before realized losses on derivative financial instruments, attributable mainly to production being below the long-term average over a longer period during the trailing 12-month period ended September 30, 2014, compared with the same period last year. The decrease in Free Cash Flow is also due to larger scheduled debt principal payments.

### Payout Ratio

The Payout Ratio represents the dividends declared on common shares divided by Free Cash Flow. The Corporation believes it is a measure of its ability to sustain current dividends and dividend increases as well as its ability to fund its growth.

For the trailing 12-month period ended September 30, 2014, the dividends on common shares declared by the Corporation corresponded to 113% of Free Cash Flow, compared with 89% for the corresponding prior 12-month period. The negative change is due mainly to the decrease in Free Cash Flow explained above as well as to the increase in dividends resulting from the higher number of common shares outstanding by virtue of the DRIP and from the issuance of 4,027,051 common shares of the Corporation in June 2014 to pay for the acquisition of the SM-1 hydroelectric facility.

The Payout Ratio reflects the Corporation's decision to invest each year in advancing the development of its Prospective Projects, which investments must be expensed as incurred. The Corporation considers such investments essential to its long-term growth and success, as it believes that the greenfield development of renewable energy projects offers the greatest potential internal rates of return and represents the most efficient use of management's expertise and value-added skills. For the trailing 12-month period ended September 30, 2014, the Corporation incurred prospective project expenses of $6.1 million, compared with $4.1 million for the corresponding prior 12-month period. This 49% increase is attributable mainly to the current request for proposals in Quebec and the upcoming request for proposals in Ontario. Excluding these discretionary expenses, the Corporation's Payout Ratio would be approximately 12 percentage points lower for the trailing 12-month period ended September 30, 2014, and approximately six percentage points lower for the corresponding prior 12-month period.

Furthermore, the Corporation does not expect to require additional equity in order to complete its current five Development Projects, given the anticipated increase in cash flows from operations once these projects have been commissioned, the project-level financing that the Corporation intends to secure for these projects and the additional equity provided by the DRIP.

## SEGMENT INFORMATION

### Geographic Segments

As at September 30, 2014, the Corporation had interests in 25 hydroelectric facilities, six wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the the three- and nine-month periods ended September 30, 2014, the revenues generated by the Horseshoe Bend hydroelectric facility in the United States totalled $1.4 million and $3.2 million respectively ($1.3 million and $2.8 million respectively in 2013), corresponding to contributions of 2.1% and 1.8% respectively (2.3% and 1.8% respectively in 2013) to the Corporation's consolidated revenues for these periods. The increase is due mainly to improved water flows and higher selling prices, compared with the same periods last year.

### Operating Segments

As at September 30, 2014, the Corporation had four operating segments: hydroelectric generation, wind power generation, solar power generation and site development.

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

The accounting policies for these segments are the same as those described in the "Significant Accounting Policies" section of the Corporation's audited consolidated financial statements for the year ended December 31, 2013. The Corporation evaluates performance based on Adjusted EBITDA and accounts for inter-segment and management sales at cost. Any transfers of assets from the site development segment to the hydroelectric, wind or solar power generation segments are accounted for at cost.

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

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

| SUMMARY OPERATING RESULTS<br>Three months ended September 30, 2014 | Hydroelectric Generation | Wind Power Generation | Solar Power Generation | Site Development | Total |
|---|---|---|---|---|---|
| Power generated (MWh) | 673,444 | 139,972 | 13,201 | — | 826,617 |
| Revenues | 49,674 | 11,153 | 5,544 | — | 66,371 |
| Expenses: | | | | | |
| Operating expenses | 7,530 | 2,173 | 265 | — | 9,968 |
| General and administrative expenses | 2,179 | 473 | 78 | 349 | 3,079 |
| Prospective project expenses | — | — | — | 1,656 | 1,656 |
| Adjusted EBITDA | 39,965 | 8,507 | 5,201 | (2,005) | 51,668 |
| Three-months ended September 30, 2013 | | | | | |
| Power generated (MWh) | 546,951 | 145,269 | 14,276 | — | 706,496 |
| Revenues | 40,550 | 11,493 | 5,996 | — | 58,039 |
| Expenses: | | | | | |
| Operating expenses | 5,800 | 2,123 | 262 | — | 8,185 |
| General and administrative expenses | 1,635 | 410 | 74 | 276 | 2,395 |
| Prospective project expenses | — | — | — | 771 | 771 |
| Adjusted EBITDA | 33,115 | 8,960 | 5,660 | (1,047) | 46,688 |

| SUMMARY OPERATING RESULTS<br>Nine months ended September 30, 2014 | Hydroelectric Generation | Wind Power Generation | Solar Power Generation | Site Development | Total |
|---|---|---|---|---|---|
| Power generated (MWh) | 1,627,769 | 479,945 | 34,833 | — | 2,142,547 |
| Revenues | 120,741 | 38,248 | 14,630 | — | 173,619 |
| Expenses: | | | | | |
| Operating expenses | 21,134 | 6,651 | 853 | — | 28,638 |
| General and administrative expenses | 6,531 | 1,989 | 243 | 1,200 | 9,963 |
| Prospective project expenses | — | — | — | 4,204 | 4,204 |
| Adjusted EBITDA | 93,076 | 29,608 | 13,534 | (5,404) | 130,814 |
| Nine months ended September 30, 2013 | | | | | |
| Power generated (MWh) | 1,362,503 | 488,496 | 34,208 | — | 1,885,207 |
| Revenues | 103,736 | 38,791 | 14,367 | — | 156,894 |
| Expenses: | | | | | |
| Operating expenses | 15,445 | 6,597 | 860 | — | 22,902 |
| General and administrative expenses | 5,388 | 1,568 | 241 | 1,124 | 8,321 |
| Prospective project expenses | — | — | — | 2,320 | 2,320 |
| Adjusted EBITDA | 82,903 | 30,626 | 13,266 | (3,444) | 123,351 |

| SUMMARY BALANCE SHEET<br>As at September 30, 2014 | Hydroelectric Generation | Wind Power Generation | Solar Power Generation | Site Development | Total |
|---|---|---|---|---|---|
| Goodwill | 8,269 | — | — | — | 8,269 |
| Total assets | 1,750,000 | 364,680 | 124,926 | 362,070 | 2,601,676 |
| Total liabilities | 1,250,851 | 241,383 | 113,667 | 391,868 | 1,997,769 |
| Acquisition of property, plant and equipment during the period | 3,784 | 399 | 161 | 158,965 | 163,309 |
| As at December 31, 2013 | | | | | |
| Goodwill | 8,269 | — | — | — | 8,269 |
| Total assets | 1,449,527 | 387,062 | 128,146 | 412,339 | 2,377,074 |
| Total liabilities | 949,570 | 248,594 | 116,085 | 396,890 | 1,711,139 |
| Acquisition of property, plant and equipment during the year | 66,581 | 1,213 | 100 | 89,501 | 157,395 |

**Hydroelectric Generation Segment**

For the three-month period ended September 30, 2014, this segment produced 93% of the LTA and generated revenues of $49.7 million, compared with production at 101% of the LTA and revenues of $40.6 million for the same period last year. Water flows were above average at most facilities in Ontario, below average at some facilities in Quebec and most facilities in British Columbia and also at the facility in the United States.

For the nine-month period ended September 30, 2014, this segment produced 91% of the LTA and generated revenues of $120.7 million, compared with production at 98% of the LTA and revenues of $103.7 million for the same period last year. This level of production stems mainly from the impact of below-average water flows, especially in British Columbia.

The revenue increase of 23% in the third quarter and 16% for the first nine months of 2014 stems mainly from the addition of the Magpie facility acquired in July 2013, the addition of the Kwoiek Creek and Northwest Stave River facilities commissioned at the end of 2013 and the addition of the SM-1 facility acquired in June 2014.

The increase in total assets since December 31, 2013, is attributable mainly to the increase in property, plant and equipment relating to the transfer of the Kwoiek Creek facility from the Site Development segment and the addition of the SM-1 facility acquired in June 2014, partly offset by depreciation of property, plant and equipment and amortization of intangible assets.

The increase in total liabilities since December 31, 2013, is attributable mainly to the transfer of the Kwoiek Creek loan from the Site Development segment and the addition of the SM-1 facility, partly offset by the scheduled repayment of long-term debt.

**Wind Power Generation Segment**

For the three-month period ended September 30, 2014, this segment produced 124% of the LTA and generated revenues of $11.2 million, compared with production at 129% of the LTA and revenues of $11.5 million for the same period last year. This level of production stems mainly from above-average wind regimes at all wind farms during the quarter.

For the nine-month period ended September 30, 2014, this segment produced 102% of the LTA and generated revenues of $38.2 million, compared with production at 104% of the LTA and revenues of $38.8 million for the same period last year. This level of production stems mainly from above-average wind regimes during the first and third quarters, which more than offset below-average wind regimes during the second quarter.

The relatively stable revenues for the three- and nine-month periods ended September 30, 2014 stems mainly from production levels that were similar to those for the same periods last year.

The decrease in total assets since December 31, 2013, is attributable mainly to depreciation of property, plant and equipment and amortization of intangible assets.

The decrease in total liabilities since December 31, 2013, is attributable mainly to the scheduled repayment of long-term debt.

**Solar Power Generation Segment**

For the three-month period ended September 30, 2014, this segment produced 104% of the LTA and generated revenues of $5.5 million, compared with production at 111% of the LTA and revenues of $6.0 million for the same period last year. This production level stems mainly from above average solar regimes during the quarter. The 8% decrease in revenues stems mainly from production levels that were lower than for the same period last year.

For the nine-month period ended September 30, 2014, this segment produced 107% of the LTA and generated revenues of $14.6 million, compared with production at 104% of the LTA and revenues of $14.4 million for the same period last year. This production level stems from above-average solar regimes, especially in the second and third quarter.

The decrease in total assets since December 31, 2013, results mainly from depreciation of property, plant and equipment as well as amortization of intangible assets.

The decrease in total liabilities since December 31, 2013, results mainly from scheduled repayment of long-term debt.

**Site Development Segment**

For the three- and nine-month periods ended September 30, 2014, site development expenses were $2.0 million and $5.4 million respectively, compared with $1.0 million and $3.4 million respectively in 2013. The increase during these periods is due mainly to higher prospective project expenses related to the current request for proposals in Quebec and the upcoming request for proposals in Ontario.

The decrease in total assets since December 31, 2013, is attributable mainly to the transfer of the Kwoiek Creek facility to the hydroelectric generation segment, partly offset by payments made for costs incurred for the construction of the Upper Lillooet River, Boulder Creek, Tretheway Creek and Big Silver Creek projects and pre-construction activities of the Mesgi'g Ugju's'n project.

The decrease in total liabilities since December 31, 2013, is attributable mainly to the transfer of the Kwoiek Creek loan to the hydroelectric generation segment, partly offset by the increase in derivative financial instruments following the Corporation's completion of the hedging program to fix the interest rate on future project-level debt for its Development Projects.

## QUARTERLY FINANCIAL INFORMATION

| | Three-months ended | | | |
|---|---|---|---|---|
| (in millions of dollars, unless otherwise stated) | Sept. 30, 2014 | June 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 |
| Power generated (MWh) | 826,617 | 898,722 | 417,209 | 496,613 |
| Revenues | 66.4 | 69.6 | 37.6 | 41.4 |
| Adjusted EBITDA | 51.7 | 53.8 | 25.3 | 25.6 |
| Unrealized net (loss) gain on derivative financial instruments | (6.9) | (29.1) | (36.0) | 11.7 |
| Net (loss) earnings | (4.5) | (14.2) | (38.1) | 3.4 |
| Net (loss) earnings attributable to owners of the parent | (0.7) | (7.8) | (27.4) | 6.3 |
| Net (loss) earnings attributable to owners of the parent ($ per share – basic and diluted) | (0.02) | (0.10) | (0.30) | 0.05 |
| Dividends declared on preferred shares | 1.8 | 1.8 | 1.8 | 1.8 |
| Dividends declared on common shares | 15.1 | 15.0 | 14.4 | 13.9 |
| Dividends declared on common shares, $ per share | 0.15 | 0.15 | 0.15 | 0.145 |

| | Three-months ended | | | |
|---|---|---|---|---|
| (in millions of dollars, unless otherwise stated) | Sept. 30, 2013 | June 30, 2013 | Mar. 31, 2013 | Dec. 31, 2012 |
| Power generated (MWh) | 706,495 | 792,541 | 386,171 | 531,564 |
| Revenues | 58.0 | 63.2 | 35.7 | 47.1 |
| Adjusted EBITDA | 46.7 | 51.3 | 25.4 | 34.2 |
| Unrealized net gain on derivative financial instruments | 2.4 | 27.3 | 3.8 | 5.3 |
| Net earnings (loss) | 11.1 | 31.0 | (0.2) | (0.6) |
| Net earnings (loss) attributable to owners of the parent | 10.8 | 28.3 | 2.8 | 1.8 |
| Net earnings (loss) attributable to owners of the parent ($ per share – basic and diluted) | 0.09 | 0.28 | 0.01 | — |
| Dividends declared on preferred shares | 1.8 | 1.8 | 2.0 | 1.1 |
| Dividends declared on common shares | 13.8 | 13.7 | 13.6 | 13.6 |
| Dividends declared on common shares, $ per share | 0.145 | 0.145 | 0.145 | 0.145 |

Comparing the results for the most recent quarters illustrates the seasonality that is characteristic of the Corporation's production and the variability of power generated, revenues and Adjusted EBITDA from quarter to quarter. As the Corporation's annualized consolidated LTA is 77% hydroelectric, this seasonality can be explained by water flows that are normally at their highest in the second quarter due to the snow melt season and at their lowest in the first quarter due to the cold temperatures, which limit precipitation in the form of rain. However, premiums for the electricity generated during the coldest months of the year included in some PPAs of the Corporation's hydroelectric facilities attenuate this seasonality. Wind regimes are generally best in the first quarter, while solar irradiation is at its highest during the summer months and at its lowest during the winter months.

Readers may expect the net earnings or losses to reflect this seasonality characteristic of run-of-river hydroelectric facilities, wind farms and solar farms. However, other factors also influence these figures, some of which have a relatively stable quarter-to-quarter impact while others are more variable. For the Corporation, the factor responsible for the largest fluctuations in net earnings (loss) is the change in the market value of derivative financial instruments. Historical analysis of net earnings (loss) 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 fluctuations and do not have an impact on the Corporation's Adjusted EBITDA, finance costs, cash flows from operating activities, Free Cash Flow and Payout Ratio.

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

## INVESTMENTS IN JOINT VENTURES

The Corporation's material joint ventures at the end of the reporting period were Umbata Falls Limited Partnership ("Umbata Falls, L.P.") (49% interest) and Parc éolien communautaire Viger-Denonville, s.e.c. (Viger-Denonville, L.P.) (50% interest).

A summary of the electricity production and financial information for the Corporation's material joint ventures is presented below. The summarized financial information corresponds to amounts shown in the joint ventures' financial statements prepared in accordance with IFRS.

### Electricity Production

| Three months ended September 30 | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Production (MWh)[1] | LTA (MWh)[1] | Production as a % of LTA | Average price ($/MWh)[2] | Production (MWh)[1] | LTA (MWh)[1] | Production as a % of LTA | Average price ($/MWh)[2] |
| Umbata Falls | 14,673 | 21,314 | 69% | 84.56 | 44,798 | 21,314 | 210% | 84.33 |
| Viger-Denonville | 16,477 | 16,350 | 101% | 148.55 | — | — | — | — |

| Nine months ended September 30 | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Production (MWh)[1] | LTA (MWh)[1] | Production as a % of LTA | Average price ($/MWh)[2] | Production (MWh)[1] | LTA (MWh)[1] | Production as a % of LTA | Average price ($/MWh)[2] |
| Umbata Falls | 75,756 | 76,064 | 100% | 84.36 | 103,055 | 76,064 | 135% | 84.34 |
| Viger-Denonville | 53,843 | 52,100 | 103% | 148.55 | — | — | — | — |

1. Corresponds to 100% of the facility's electricity production and LTA.
2. Including payments received from the ecoENERGY Initiative for Umbata Falls.

### Umbata Falls, L.P.

**Summary Statements of Earnings and Comprehensive Income – Umbata Falls, L.P.**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | 1,240 | 3,778 | 6,391 | 8,692 |
| Operating and general and administrative expenses | 186 | 191 | 599 | 558 |
| Adjusted EBITDA | 1,054 | 3,587 | 5,792 | 8,134 |
| Finance costs | 615 | 637 | 1,836 | 1,880 |
| Other net revenues | (10) | (8) | (30) | (25) |
| Depreciation and amortization | 1,003 | 1,006 | 3,009 | 3,018 |
| Unrealized net loss (gain) on derivative financial instruments | 331 | (718) | 2,472 | (4,135) |
| Net (loss) earnings and comprehensive (loss) income | (885) | 2,670 | (1,495) | 7,396 |

For the three-month period ended September 30, 2014, production was below the LTA due to below-average water flows. Revenues and Adjusted EBITDA were lower than for the same period last year due to the lower production levels. The net loss is attributable to production below the LTA, compared with above-average production for the same period last year, and to an unrealized net loss on derivative financial instruments resulting from the decrease in benchmark interest rates since the end of 2013, compared with an unrealized net gain on derivative financial instruments resulting from the increase in benchmark interest rates during the same periods last year.

For the nine-month period ended September 30, 2014, production was 100% of the LTA. Revenues and Adjusted EBITDA were lower than for the same period last year due mainly to lower production levels. The net loss is also attributable to an unrealized net loss on derivative financial instruments resulting from the decrease in benchmark interest rates since the end of 2013, compared with an unrealized net gain on derivative financial instruments resulting from the increase in benchmark interest rates during the same period last year.

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

**Summary Statements of Financial Position – Umbata Falls, L.P.**

| As at | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Current assets | 1,333 | 3,685 |
| Non-current assets | 73,031 | 75,864 |
| Current liabilities | 47,091 | 47,972 |
| Non-current liabilities | 4,348 | 1,852 |
| Partners' equity | 22,925 | 29,725 |

The reduction in partners' equity stems mainly from a distribution of $5.3 million since the beginning of the year and from the net loss generated for the nine-month period. The July 2014 term maturity of the Umbata Falls loan, which has been recorded in the current portion of long-term debt, has been extended to December 31, 2014. Umbata Falls, L.P. expects to refinance the outstanding balance before year-end. Also, Umbata Falls, L.P. uses a derivative financial instrument to manage its exposure to the risk of increasing interest rates on its debt financing and does not own or issue any Derivatives for speculation purposes. An interest-rate swap totalling $45.8 million used to hedge the interest rate on 100% of the Umbata Falls loan had a net negative value of $5.5 million at September 30, 2014 (negative $3.0 million at December 31, 2013).

## Viger-Denonville, L.P.

**Summary Statements of Earnings and Comprehensive Income – Viger-Denonville, L.P.**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | 2,448 | — | 7,998 | — |
| Operating and general and administrative expenses | 361 | 2 | 1,326 | 6 |
| Adjusted EBITDA | 2,087 | (2) | 6,672 | (6) |
| Finance costs | 962 | — | 2,630 | — |
| Other net revenues | (33) | (2,744) | (49) | (3,641) |
| Depreciation and amortization | 821 | 1 | 2,492 | 2 |
| Unrealized net loss on derivative financial instruments | 251 | 3,725 | 2,501 | 1,837 |
| Net earnings (loss) and comprehensive income (loss) | 86 | (984) | (902) | 1,796 |

For the three- and nine-month periods ended September 30, 2014, production was in line with the LTA. Revenues and Adjusted EBITDA reflect the operation of the Viger-Denonville wind farm commissioned in November 2013. The net results during these periods reflect an unrealized net loss on derivative financial instruments resulting from the decrease in benchmark interest rates since the end of 2013. For the same periods last year, the net results reflect a realized gain on foreign exchange contracts and a realized gain on derivative financial instruments resulting from the settlement of the bond forward contracts upon closing of the long-term financing for the project, partly offset by unrealized net losses on derivative financial instruments.

**Summary Statements of Financial Position – Viger-Denonville, L.P.**

| As at | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Current assets | 14,236 | 9,221 |
| Non-current assets | 63,278 | 63,940 |
| Current liabilities | 5,120 | 8,200 |
| Non-current liabilities | 57,664 | 44,813 |
| Partners' equity | 14,730 | 20,148 |

The reduction in partners' equity stems mainly from a reimbursement of equity investment of $4.5 million once the project financing was fully drawn and from the net loss generated for the nine-month period. In addition, Viger-Denonville, L.P. uses a derivative financial instrument to manage its exposure to the risk of increasing interest rates on its debt financing and does not own or issue any Derivatives for speculation purposes. An interest-rate swap totalling $57.4 million used to hedge the interest rate of the Viger-Denonville loan had a net negative value of $3.4 million at September 30, 2014 (negative $0.9 million at December 31, 2013).

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

## NON-WHOLLY OWNED SUBSIDIARIES

Summarized financial information regarding each of the Corporation's subsidiaries that has material non-controlling interests is set out below. Amounts are shown before intragroup eliminations.

### Harrison Hydro Limited Partnership ("Harrison Hydro L.P.") and Its Eight Subsidiaries

**Summary Statements of Earnings and Comprehensive Income – Harrison Hydro L.P.**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | 10,241 | 14,574 | 33,947 | 40,435 |
| Adjusted EBITDA | 7,632 | 12,158 | 25,838 | 33,389 |
| Net (loss) earnings and comprehensive (loss) income | (3,427) | 752 | (11,438) | (2) |
| Net (loss) earnings and comprehensive (loss) income attributable to: | | | | |
| Owners of the parent | (1,856) | 239 | (6,150) | (430) |
| Non-controlling interests | (1,571) | 513 | (5,288) | 428 |
| | (3,427) | 752 | (11,438) | (2) |

For the three- and nine-month periods ended September 30, 2014, the decrease in revenues and Adjusted EBITDA is due mainly to lower production levels compared with the same periods last year, which have remained below the LTA as a result of below-average water flows in British Columbia. The net losses are also attributable to greater inflation compensation interest on the real return bonds of $1.1 million for the quarter and $6.2 million for the nine-month period ($0.9 million and of $2.1 million respectively for the same periods last year) as a result of higher inflation.

**Summary Statements of Financial Position – Harrison Hydro L.P.**

| As at | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Current assets | 24,275 | 30,143 |
| Non-current assets | 650,455 | 662,749 |
| Current liabilities | 16,885 | 13,925 |
| Non-current liabilities | 464,430 | 460,511 |
| Equity attributable to owners | 117,542 | 130,497 |
| Non-controlling interests | 75,873 | 87,959 |

As at September 30, 2014, the decrease in non-current assets is due mainly to depreciation of fixed assets. Furthermore, Harrison Hydro L.P. distributed $13.6 million in 2013. The distribution was made in the form of non-interest bearing loans of $6.8 million each to the Corporation and its partners, which were presented as loans to partners at December 31, 2013. On January 1, 2014, these loans were reimbursed directly from distributions from Harrison Hydro L.P. and a corresponding decrease in non-controlling interests was recorded in 2014 with no impact to cash flows.

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

## Creek Power Inc. and Its Six Subsidiaries

**Summary Statements of Earnings and Comprehensive Income – Creek Power Inc.**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | 1,305 | 1,246 | 2,147 | 2,114 |
| Adjusted EBITDA | 935 | 694 | 881 | 728 |
| Net loss and comprehensive loss | (5,457) | (398) | (28,139) | (756) |
| | | | | |
| Net loss and comprehensive loss attributable to: | | | | |
| Owners of the parent | (3,652) | (248) | (18,751) | (474) |
| Non-controlling interest | (1,805) | (150) | (9,388) | (282) |
| | (5,457) | (398) | (28,139) | (756) |

For the three- and nine-month periods ended September 30, 2014, the greater net loss is due mainly to greater unrealized net losses on derivative financial instruments resulting from the greater amount of derivative financial instruments entered into as well as the decrease in benchmark interest rates, compared with the same periods last year. Derivative financial instruments include interest rate swaps used to fix the interest rate on the Fitzsimmons Creek financing and bond forward contracts used to fix the interest rate for the Upper Lillooet River and Boulder Creek projects' financing until closing of the non-recourse project-level debt.

**Summary Statements of Financial Position – Creek Power Inc.**

| As at | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Current assets | 4,824 | 6,593 |
| Non-current assets | 178,364 | 67,349 |
| Current liabilities | 51,912 | 13,547 |
| Non-current liabilities | 168,554 | 69,534 |
| Deficit attributable to owners | (28,648) | (9,897) |
| Non-controlling interest | (8,630) | 758 |

The increase in balance sheet items is due mainly to construction spending for the Upper Lillooet River and Boulder Creek projects. The increase in current liabilities is also due to the bond forward contracts entered into to hedge the interest rate on future project-level financing for these projects.

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

## Kwoiek Creek Resources Limited Partnership and Its General Partner

**Summary Statements of Earnings and Comprehensive Income – Kwoiek Creek Resources Limited Partnership**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | 8,009 | — | 13,152 | — |
| Adjusted EBITDA | 6,848 | (3) | 10,580 | (8) |
| Net earnings (loss) and comprehensive income (loss) | 1,351 | (1) | (4,137) | (6) |
| Net earnings (loss) and comprehensive income (loss) attributable to: | | | | |
| Owners of the parent | 759 | (1) | (1,819) | (3) |
| Non-controlling interest | 592 | — | (2,318) | (3) |
| | 1,351 | (1) | (4,137) | (6) |

For the three- and nine-month periods ended September 30, 2014, revenues and Adjusted EBITDA reflect the operation of the Kwoiek Creek hydroelectric facility, which was commissioned effective January 1, 2014. The net loss generated during the nine-month period is due mainly to production levels below the LTA as a result of below-average water flows in British Columbia and commissioning activities, as operating expenses, depreciation and finance costs are not directly correlated to production levels.

**Summary Statements of Financial Position – Kwoiek Creek Resources Limited Partnership**

| As at | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Current assets | 26,849 | 34,019 |
| Non-current assets | 176,777 | 177,928 |
| Current liabilities | 9,031 | 23,694 |
| Non-current liabilities | 213,380 | 202,901 |
| Deficit attributable to owners | (9,333) | (7,514) |
| Non-controlling interests | (9,452) | (7,134) |

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

## Mesgi'g Ugju's'n (MU) Wind Farm, L.P. and Its General Partner ("Mesgi'g Ugju's'n")

The Mesgi'g Ugju's'n subsidiary began operating on March 21, 2014.

**Summary Statement of Earnings and Comprehensive Income – Mesgi'g Ugju's'n**

| | Three months ended September 30, 2014 | Since March 21, 2014 |
|---|---|---|
| Revenues | — | — |
| Adjusted EBITDA | — | — |
| Net loss and comprehensive loss | (2,816) | (8,490) |
| Net loss and comprehensive loss attributable to: | | |
| Owners of the parent | (2,348) | (5,219) |
| Non-controlling interest | (468) | (3,271) |
| | (2,816) | (8,490) |

For the three months ended September 30, 2014, and since the subsidiary began operations in March 2014, the recognition of a net loss is due mainly to an unrealized net loss on derivative financial instruments resulting from the decrease in benchmark interest rates since the beginning of these periods. Derivative financial instruments in the form of bond forward contracts are used to fix the interest rate on the Mesgi'g Ugju's'n project-level financing until closing of this financing.

**Summary Statement of Financial Position – Mesgi'g Ugju's'n**

| As at | September 30, 2014 |
|---|---|
| Current assets | 5,305 |
| Non-current assets | 8,976 |
| Current liabilities | 12,821 |
| Non-current liabilities | — |
| Equity attributable to owners | 2,431 |
| Non-controlling interest | (971) |

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

## Innergex Sainte-Marguerite, S.E.C. ("SM-1 L.P.") and Its General Partner

On June 20, 2014, the Corporation signed an asset purchase agreement for the acquisition of 50.01% of the SM-1 hydroelectric facility.

**Summary Statements of Earnings and Comprehensive Income – SM-1 L.P.**

| | Three months ended September 30, 2014 | Since June 20, 2014 |
|---|---|---|
| Revenues | 2,505 | 2,788 |
| Adjusted EBITDA | 1,844 | 2,093 |
| Net loss and comprehensive loss | (1,084) | (1,136) |
| Net loss and comprehensive loss attributable to: | | |
| Owners of the parent | (542) | (568) |
| Non-controlling interest | (542) | (568) |
| | (1,084) | (1,136) |

For the three months ended September 30, 2014, and since June 20, 2014, revenues and Adjusted EBITDA reflect the acquisition of the SM-1 hydroelectric facility. The net loss is attributable mainly to the recording as an expense of the interest on the $40.9 million debenture held by the Corporation's partner. However, the interest on this debenture will essentially be accrued and compounded until the facility's project-level debt has been repaid.

**Summary Statements of Financial Position – SM-1 L.P.**

| As at | September 30, 2014 |
|---|---|
| Current assets | 3,248 |
| Non-current assets | 136,207 |
| Current liabilities | 6,576 |
| Non-current liabilities | 117,483 |
| Equity attributable to owners | 15,959 |
| Non-controlling interests | (563) |

## ACCOUNTING CHANGES

### New IFRS affecting the reported financial performance and financial position in the current year

**IFRIC 21 Levies**

In May 2013, the International Accounting Standards Board (”IASB”) issued IFRIC 21 – Levies (“IFRIC 21”), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard has been adopted and applied in these financial statements. The application of this standard has not had any material impact on the amounts reported for the current year.

**IFRS 9- Financial instruments**

In July, 2014, IASB finalized IFRS 9, Financial Instruments, which is effective for annual periods beginning on or after January 1, 2018 and shall be applied retrospectively. The Corporation early adopted IFRS 9 as of October 1, 2014. It is not expected that the application of this standard will have any material impact on the amounts reported this year.

### New and revised IFRS issued but not yet effective

**IFRS 15- Revenue from contracts with customers**

In May 2014, IASB issued IFRS 15– Revenue from contracts with customers (“IFRS 15”). This standard replaces IAS 11 construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC-31 Revenue Barter transactions involving advertising services. IFRS 15 applies to all contracts with customers except those that are within the scope of other IFRSs. IFRS 15 is effective for annual periods commencing on or after January 1, 2017. The Corporation is evaluating the impact the interpretation is expected to have on its consolidated financial statements.

**IFRS 11- Joint arrangement**

IFRS 11 was amended in May 2014 to add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016. The Corporation is evaluating the impact the amendments are expected to have on its consolidated financial statements.

## SUBSEQUENT EVENTS

### DBRS Discontinues the Corporation's Issuer and Preferred Share Ratings

On October 10, 2014, DBRS announced that it was discontinuing the issuer rating and preferred shares rating for the Corporation. DBRS noted that this action is unrelated to the Corporation's credit profile. Since December 2012, DBRS had issued an issuer rating and preferred shares rating for the Corporation on an unsolicited basis.

### Bids Submitted Under the Quebec Request for Proposals for 450 MW of New Wind Energy

Following the Régie de l'énergie's ruling on the weighting grid to be used in assessing projects under the current request for proposals for 450 MW of new wind energy, Hydro-Québec set a deadline of November 5, 2014, for submitting proposals. Project selection is expected to be announced by the end of 2014 or early 2015. The Corporation has submitted several projects under this request for proposals.

### Innergex Extends and Temporarily Increases Its Revolving Term Credit Facility

On November 6, 2014 the Corporation executed an amending agreement to extend its revolving term credit facility from 2018 to 2019, as well as to temporarily increase its borrowing capacity by $50 million for a period of eight months, from $425 million to $475 million. These modifications will provide greater financing flexibility until the Corporation closes the four project-level financings that remain to be put in place.

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

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

| | | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| | Notes | | | | |
| **Revenues** | | 66,371 | 58,039 | 173,619 | 156,894 |
| **Expenses** | | | | | |
| Operating | 4 | 9,968 | 8,185 | 28,638 | 22,902 |
| General and administrative | | 3,079 | 2,395 | 9,963 | 8,321 |
| Prospective projects | | 1,656 | 771 | 4,204 | 2,320 |
| Earnings before finance costs, income taxes, depreciation, amortization, other net expenses (revenues), share of loss (earnings) of joint ventures and unrealized net loss (gain) on derivative financial instruments | | 51,668 | 46,688 | 130,814 | 123,351 |
| Finance costs | 5 | 21,682 | 17,279 | 65,815 | 49,057 |
| Other net expenses (revenues) | 6 | 8,776 | (158) | 7,864 | 427 |
| Earnings before income taxes, depreciation, amortization, share of loss (earnings) of joint ventures and unrealized net loss (gain) on derivative financial instruments | | 21,210 | 29,567 | 57,135 | 73,867 |
| Depreciation | 4,8 | 13,577 | 12,333 | 40,915 | 36,341 |
| Amortization | 4 | 5,075 | 4,760 | 15,515 | 15,665 |
| Share of loss (earnings) of joint ventures | | 390 | (816) | 1,182 | (4,522) |
| Unrealized net loss (gain) on derivative financial instruments | | 6,934 | (2,404) | 72,111 | (33,560) |
| (Loss) earnings before income taxes | | (4,766) | 15,694 | (72,588) | 59,943 |
| (Recovery of) income tax expense | | | | | |
| Current | | 912 | 917 | 2,508 | 2,575 |
| Deferred | | (1,160) | 3,630 | (18,284) | 15,360 |
| | | (248) | 4,547 | (15,776) | 17,935 |
| **Net (loss) earnings** | | (4,518) | 11,147 | (56,812) | 42,008 |
| Net (loss) earnings attributable to: | | | | | |
| Owners of the parent | | (725) | 10,786 | (35,979) | 41,885 |
| Non-controlling interests | | (3,793) | 361 | (20,833) | 123 |
| | | (4,518) | 11,147 | (56,812) | 42,008 |
| Weighted average number of common shares outstanding (in 000s) | 7 | 100,326 | 94,922 | 97,571 | 94,405 |
| Basic net (loss) earnings per share ($) | 7 | (0.02) | 0.09 | (0.42) | 0.38 |
| Diluted weighted average number of common shares outstanding (in 000s) | 7 | 100,547 | 94,922 | 97,763 | 94,459 |
| Diluted net (loss) earnings per share ($) | 7 | (0.02) | 0.09 | (0.42) | 0.38 |

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

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net (loss) earnings | (4,518) | 11,147 | (56,812) | 42,008 |
| Items of comprehensive (loss) income that will be subsequently reclassified to earnings: | | | | |
| Foreign exchange gain (loss) on translation of self-sustaining foreign subsidiaries | 360 | (117) | 363 | 162 |
| Related deferred tax | (47) | 15 | (48) | (21) |
| Foreign exchange (loss) gain on the designated portion of the US dollar denominated debt used as hedge on the investment in self-sustaining foreign subsidiaries | (375) | 125 | (372) | (161) |
| Related deferred tax | 49 | (15) | 49 | 22 |
| Other comprehensive (loss) income | (13) | 8 | (8) | 2 |
| **Total comprehensive (loss) income** | (4,531) | 11,155 | (56,820) | 42,010 |
| **Total comprehensive (loss) income attributable to:** | | | | |
| Owners of the parent | (738) | 10,794 | (35,987) | 41,887 |
| Non-controlling interests | (3,793) | 361 | (20,833) | 123 |
| | (4,531) | 11,155 | (56,820) | 42,010 |

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

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

| As at | Notes | September 30, 2014 | December 31, 2013 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | 47,090 | 34,267 |
| Restricted cash and short-term investments | | 28,828 | 49,745 |
| Accounts receivable | | 36,261 | 19,799 |
| Reserve accounts | | 925 | 1,771 |
| Income tax receivable | | 4 | 80 |
| Derivative financial instruments | | 1,826 | 7,563 |
| Loans to related parties | 14 | — | 6,798 |
| Prepaid and others | | 8,306 | 5,085 |
| | | 123,240 | 125,108 |
| | | | |
| Reserve accounts | | 39,805 | 45,791 |
| Property, plant and equipment | 8 | 1,838,533 | 1,583,417 |
| Intangible assets | | 493,101 | 466,093 |
| Project development costs | | 59,283 | 81,643 |
| Investments in joint ventures | | 18,599 | 24,639 |
| Derivative financial instruments | | 4,551 | 7,066 |
| Deferred tax assets | | 8,711 | 1,804 |
| Goodwill | | 8,269 | 8,269 |
| Other long-term assets | 3 | 7,584 | 33,244 |
| | | 2,601,676 | 2,377,074 |

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

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

| As at | Notes | September 30, 2014 | December 31, 2013 |
|---|---|---|---|
| **Liabilities** | | | |
| Current liabilities | | | |
| Dividends payable to shareholders | | 16,837 | 15,651 |
| Accounts payable and other payables | | 42,208 | 48,258 |
| Income tax liabilities | | 1,578 | 2,216 |
| Derivative financial instruments | | 62,196 | 12,915 |
| Current portion of long-term debt | | 33,206 | 26,649 |
| Current portion of other liabilities | | 432 | 362 |
| | | 156,457 | 106,051 |
| Construction holdbacks | | 10,890 | 1,347 |
| Derivative financial instruments | | 40,113 | 26,081 |
| Accrual for acquisition of long-term assets | | 35,928 | 9,855 |
| Long-term debt | 9 | 1,493,871 | 1,313,718 |
| Other liabilities | | 11,787 | 10,567 |
| Liability portion of convertible debentures | | 79,970 | 79,831 |
| Deferred tax liabilities | | 168,753 | 163,689 |
| | | 1,997,769 | 1,711,139 |
| **Shareholders' equity** | | | |
| Common shares capital | 10 | 59,263 | 10,374 |
| Contributed surplus from reduction of capital on common shares | | 784,482 | 784,482 |
| Preferred shares | | 131,069 | 131,069 |
| Share-based payment | | 1,994 | 1,806 |
| Equity portion of convertible debentures | | 1,340 | 1,340 |
| Deficit | | (430,580) | (344,809) |
| Accumulated other comprehensive income | | 236 | 244 |
| Equity attributable to owners | | 547,804 | 584,506 |
| Non-controlling interests | | 56,103 | 81,429 |
| Total shareholders' equity | | 603,907 | 665,935 |
| | | 2,601,676 | 2,377,074 |

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

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

| | Equity attributable to owners | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| For the nine-month period ended September 30, 2014 | Number of common shares (In 000s) | Common shares capital account | Contributed surplus from reduction of capital on common shares | Preferred shares | Share-based payment | Equity portion of convertible debentures | Deficit | Accumulated other comprehensive income | Total | Non-controlling interests | Total shareholders' equity |
| Balance January 1, 2014 | 95,655 | 10,374 | 784,482 | 131,069 | 1,806 | 1,340 | (344,809) | 244 | 584,506 | 81,429 | 665,935 |
| Net loss | | | | | | | (35,979) | | (35,979) | (20,833) | (56,812) |
| Other items of comprehensive loss | | | | | | | | (8) | (8) | | (8) |
| Total comprehensive loss | — | — | — | — | — | — | (35,979) | (8) | (35,987) | (20,833) | (56,820) |
| Common shares issued on June 20, 2014 : private placement (Note 3) | 4,027 | 41,720 | | | | | | | 41,720 | | 41,720 |
| Issuance fees (Net of $22 of deferred income taxes) | | (60) | | | | | | | (60) | | (60) |
| Common shares issued through dividend reinvestment plan | 691 | 7,229 | | | | | | | 7,229 | | 7,229 |
| Share-based payment | | | | | 188 | | | | 188 | | 188 |
| Distributions to non-controlling interests (Note 14) | | | | | | | | | — | (6,798) | (6,798) |
| Investments from non-controlling interests | | | | | | | | | — | 2,305 | 2,305 |
| Dividends declared on common shares | | | | | | | (44,448) | | (44,448) | | (44,448) |
| Dividends declared on preferred shares | | | | | | | (5,344) | | (5,344) | | (5,344) |
| Balance September 30, 2014 | 100,373 | 59,263 | 784,482 | 131,069 | 1,994 | 1,340 | (430,580) | 236 | 547,804 | 56,103 | 603,907 |

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

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

| | Equity attributable to owners | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| For the nine-month period ended September 30, 2013 | Number of common shares (In 000s) | Common shares capital account | Contributed surplus from reduction of capital on common shares | Preferred shares | Share-based payment | Equity portion of convertible debentures | Deficit | Accumulated other comprehensive income | Total | Non-controlling interests | Total shareholders' equity |
| Balance January 1, 2013 | 93,660 | 120,500 | 656,281 | 131,069 | 1,511 | 1,340 | (330,621) | 241 | 580,321 | 107,611 | 687,932 |
| Net earnings | | | | | | | 41,885 | | 41,885 | 123 | 42,008 |
| Other items of comprehensive income | | | | | | | | 2 | 2 | | 2 |
| Total comprehensive income | — | — | — | — | — | — | 41,885 | 2 | 41,887 | 123 | 42,010 |
| Common shares issued through dividend reinvestment plan | 1,354 | 12,450 | | | | | | | 12,450 | | 12,450 |
| Reduction of capital on common shares | | (128,201) | 128,201 | | | | | | — | | — |
| Share-based payment | | | | | 245 | | | | 245 | | 245 |
| Business acquisitions | | | | | | | | | — | 1 | 1 |
| Distributions to non-controlling interests | | | | | | | | | — | (23,444) | (23,444) |
| Dividends declared on common shares | | | | | | | (41,097) | | (41,097) | | (41,097) |
| Dividends declared on preferred shares | | | | | | | (5,610) | | (5,610) | | (5,610) |
| Balance September 30, 2013 | 95,014 | 4,749 | 784,482 | 131,069 | 1,756 | 1,340 | (335,443) | 243 | 588,196 | 84,291 | 672,487 |

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

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| | Notes | Nine months ended September 30 2014 | 2013 |
|---|---|---|---|
| **Operating activities** | | | |
| Net (loss) earnings | | (56,812) | 42,008 |
| Items not affecting cash: | | | |
| Depreciation | | 40,915 | 36,341 |
| Amortization | | 15,515 | 15,665 |
| Share of loss (earnings) of joint ventures | | 1,182 | (4,522) |
| Unrealized net loss (gain) on derivative financial instruments | | 72,111 | (33,560) |
| Inflation compensation interest | 5 | 6,241 | 2,120 |
| Amortization of financing fees | 5 | 702 | 678 |
| Amortization of revaluation of long-term debt and convertible debentures | 5 | 889 | 1,081 |
| Accretion expenses on other liabilities | 5 | 474 | 389 |
| Share-based payment | | 188 | 245 |
| Deferred income taxes | | (18,284) | 15,360 |
| Effect of exchange rate fluctuations | | 315 | 204 |
| Others | | 185 | (41) |
| Interest on long-term debt and convertible debentures | 5 | 56,922 | 44,495 |
| Interest paid | | (55,883) | (44,629) |
| Loss on contingent considerations | | — | 353 |
| Distributions received from joint ventures | | 2,599 | 2,041 |
| Current income tax expense | | 2,508 | 2,575 |
| Net income taxes paid | | (3,100) | (1,226) |
| | | 66,667 | 79,577 |
| Changes in non-cash operating working capital items | 12 | (9,403) | 7,175 |
| | | 57,264 | 86,752 |
| **Financing activities** | | | |
| Dividends paid on common shares | | (36,032) | (28,451) |
| Dividends paid on preferred shares | | (5,343) | (4,892) |
| Increase of long-term debt | | 224,266 | 167,414 |
| Repayment of long-term debt | | (83,419) | (122,015) |
| Payment of deferred financing costs | | (252) | (2,933) |
| Payment of other liabilities | | (112) | — |
| Payment of issuance cost of common and preferred shares | | (83) | (353) |
| | | 99,025 | 8,770 |

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

# UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

| | | Nine months ended September 30 | |
|---|---|---|---|
| | | 2014 | 2013 |
| | Notes | | |
| **Investing activities** | | | |
| Cash acquired on business acquisitions | | — | 1,885 |
| Business acquisitions | 3 | (37,901) | (28,577) |
| Decrease of restricted cash and short-term investments | | 20,917 | 30,186 |
| Loans to related parties | 14 | — | (576) |
| Net funds withdrawn from the reserve accounts | | 7,141 | 46 |
| Additions to property, plant and equipment | | (138,383) | (65,367) |
| Additions to intangible assets | | — | (14,758) |
| Additions to project development costs | | (23,435) | (15,078) |
| Withdrawals from (Investments in) joint ventures | | 2,259 | (2,922) |
| Investment from non-controlling interest | 13.2 | 5 | — |
| Reductions (additions) to other long-term assets | | 25,660 | (439) |
| Proceeds from disposal of property, plant and equipment | | 166 | 56 |
| | | (143,571) | (95,544) |
| Effects of exchange rate changes on cash and cash equivalents | | 105 | 32 |
| Net increase in cash and cash equivalents | | 12,823 | 10 |
| Cash and cash equivalents, beginning of period | | 34,267 | 49,496 |
| **Cash and cash equivalents, end of period** | | 47,090 | 49,506 |
| *Cash and cash equivalents is comprised of:* | | | |
| Cash | | 28,748 | 36,055 |
| Short-term investments | | 18,342 | 13,451 |
| | | 47,090 | 49,506 |

*Additional information is presented in Note 12.*

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

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

## DESCRIPTION OF BUSINESS

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

These unaudited condensed consolidated financial statements were approved by the Board of Directors on November 6, 2014.

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

## 1. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"). The condensed consolidated financial statements are in compliance with IAS-34 Interim Financial Reporting. The same accounting policies and methods of application as described in the Corporation's latest annual report have been used. However, these condensed consolidated financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Corporation's latest annual report.

The condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair values as described in the significant accounting policies included in the Corporation's latest annual report.

## 2. APPLICATION OF NEW AND REVISED IFRS

### 2.1 New IFRSs affecting the reported financial performance and financial position in the current year

**IFRIC 21 - Levies**

In May 2013, the International Accounting Standards Board ("IASB") issued IFRIC 21 – Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard has been adopted and applied in these financial statements. The application of this standard has not had any material impact on the amounts reported for the current year.

**IFRS 9- Financial instruments**

In July, 2014, IASB finalized IFRS 9, Financial Instruments, which is effective for annual periods beginning on or after January 1, 2018 and shall be applied retrospectively. The Corporation early adopted IFRS 9 as of October 1, 2014. It is not expected that the application of this standard will have any material impact on the amounts reported this year.

### 2.2 New and revised IFRS issued but not yet effective

**IFRS 15- Revenue from contracts with customers**

In May 2014, IASB issued IFRS 15– Revenue from contracts with customers ("IFRS 15"). This standard replaces IAS 11 construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC-31 Revenue Barter transactions involving advertising services. IFRS 15 applies to all contracts with customers except those that are within the scope of other IFRSs.

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

IFRS 15 is effective for annual periods commencing on or after January 1, 2017. The Corporation is evaluating the impact the interpretation is expected to have on its consolidated financial statements.

**IFRS 11- Joint arrangement**

IFRS 11 was amended in May 2014 to add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016. The Corporation is evaluating the impact the amendments are expected to have on its consolidated financial statements.

## 3. BUSINESS ACQUISITIONS

### 3.1 Acquisition of assets of Sainte-Marguerite-1

On June 20, 2014, the Corporation and the Desjardins Group Pension Plan ("Desjardins") finalized the acquisition of the Sainte-Marguerite-1 ("SM-1") run-of-river hydroelectric facility located in Quebec, Canada. The preliminary purchase price of the SM-1 facility was $80,460 plus assumption of $37,455 in non-recourse, project-level debt carrying a fixed interest rate of 3.30% and maturing in 2025 (see note 9).

The preliminary purchase price of $80,460, was paid as follows: $37,901 in cash, $839 by way of a holdback payable and $41,720 by the issuance of preferred units of Innergex Sainte-Marguerite, S.E.C. (“SM-1 LP”) which the seller immediately transferred to the Corporation in exchange for 4,027,051 newly issued common shares of the Corporation at a price of $10.36 per common share. As a result, the Corporation now holds the preferred units of SM-1 LP that carry a preferred distribution rate of 10.5% until January 1, 2024 and 11.3% thereafter. Other adjustments may occur, namely after the capital improvement program has been completed.

The total preliminary purchase price has been calculated as follows:

| | |
|---|---|
| Cash | 37,901 |
| Holdback payable | 839 |
| Shares issued | 41,720 |
| Total purchase price | 80,460 |

The Corporation and Desjardins respectively own 50.01% and 49.99% of the common units of SM-1 LP. Concurrent with the acquisition of the SM-1 facility, Desjardins subscribed to a debenture issued by SM-1 LP for total proceeds of $40,901. This debenture carries an interest rate of 8.0%, has no predetermined repayment schedule and matures in 2064.

Upon closing of the acquisition, the seller used a portion of the cash proceeds to repay to the Corporation the $25,000 deposit it received in July 2012, plus accrued interest income of $3,464. This deposit and accrued interests were accounted in other long term assets prior to their repayment.

All power generated from the facility is sold to Hydro Québec under Power Purchase Agreements expiring in 2017 and 2027.

Additional cash flows generated from the assets acquired are expected to further increase the Corporation's liquidity and flexibility to fund the development of future projects. The acquisition of the SM-1 facility added an additional installed capacity of approximately 30.5 MW to the Corporation's portfolio of operational hydroelectric facilities.

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

The following table reflects the preliminary purchase price allocation:

| | |
|---|---|
| Reserve account | 259 |
| Property, plant and equipment | 115,547 |
| Intangible assets | 19,213 |
| Current liabilities | (583) |
| Long-term debt | (37,455) |
| Deferred tax liabilities | (16,521) |
| **Net assets acquired** | 80,460 |

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

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

If the acquisition had taken place on January 1, 2014, the consolidated revenues and net loss would have been respectively $178,937 and $55,018 for the nine-month period ended September 30, 2014.

The amounts of revenues and net earnings of SM-1 LP since June 20, 2014 included in the consolidated statement of earnings are $2,788 and $366 respectively for the 103 days ended September 30, 2014.

## 4. OPERATING EXPENSES

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Salaries | 994 | 665 | 2,725 | 2,055 |
| Insurance | 630 | 545 | 1,788 | 1,531 |
| Operation and maintenance | 3,621 | 3,880 | 11,393 | 10,796 |
| Property taxes and royalties | 4,723 | 3,095 | 12,732 | 8,520 |
| | 9,968 | 8,185 | 28,638 | 22,902 |

Depreciation and amortization recorded in the consolidated statements of earnings are mainly related to operating expenses incurred to generate revenues.

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

## 5. FINANCE COSTS

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Interest on long-term debt and on convertible debentures | 19,838 | 15,557 | 56,922 | 44,495 |
| Inflation compensation interest | 1,148 | 936 | 6,241 | 2,120 |
| Amortization of financing fees | 204 | 216 | 702 | 678 |
| Amortization of revaluation of long-term debt and convertible debentures | 119 | 300 | 889 | 1,081 |
| Accretion expenses on other liabilities | 158 | 138 | 474 | 389 |
| Others | 215 | 132 | 587 | 294 |
| | 21,682 | 17,279 | 65,815 | 49,057 |

## 6. OTHER NET EXPENSES (REVENUES)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Transaction costs | 260 | 260 | 518 | 536 |
| Realized loss on derivative financial instruments | 8,366 | — | 8,366 | 3,259 |
| Realized loss (gain) on foreign exchange | 305 | (94) | 338 | 167 |
| Loss on contingent considerations | — | 353 | — | 353 |
| Other net revenues | (455) | (677) | (1,658) | (1,888) |
| Loan impairment | 300 | — | 300 | — |
| Settlement of claims received in relation with an acquisition | — | — | — | (2,000) |
| | 8,776 | (158) | 7,864 | 427 |

## 7. EARNINGS PER SHARE

The net (loss) earnings per share are computed as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net (loss) earnings attributable to owners of the parent | (725) | 10,786 | (35,979) | 41,885 |
| Dividends declared on preferred shares | (1,781) | (1,781) | (5,344) | (5,610) |
| Net (loss) earnings available to common shareholders | (2,506) | 9,005 | (41,323) | 36,275 |
| Weighted average number of common shares (in 000s) | 100,326 | 94,922 | 97,571 | 94,405 |
| Basic net (loss) earnings per share ($) | (0.02) | 0.09 | (0.42) | 0.38 |
| Weighted average number of common shares (in 000s) | 100,326 | 94,922 | 97,571 | 94,405 |
| Effect of dilutive elements on common shares (in 000s) (a) | 221 | — | 192 | 54 |
| Diluted weighted average number of common shares (in 000s) | 100,547 | 94,922 | 97,763 | 94,459 |
| Diluted net (loss) earnings per share ($) (b) | (0.02) | 0.09 | (0.42) | 0.38 |

**a.** During the three-month period ended September 30, 2014, 1,243,000 of 3,073,684 stock options (2,736,684 of 2,736,684 for the three-month period ended September 30, 2013) and 7,558,684 shares which can be issued on conversion of convertible debentures (7,558,684 for the three-month period ended September 30, 2013) were excluded from the calculation of diluted weighted average number of shares outstanding as the exercise price was above the average market price of common shares.

During the nine-month period ended September 30, 2014, 1,243,000 of 3,073,684 stock options (2,073,420 of 2,736,684 for the nine-month period ended September 30, 2013) and 7,558,684 shares which can be issued on conversion of convertible debentures (7,558,684 for the nine-month period ended September 30, 2013) were excluded from the calculation of diluted weighted average number of shares outstanding as the exercise price was above the average market price of common shares.

**b.** During the three-month and nine-month periods ended September 30, 2014, 1,830,684 of 3,073,684 stock options were excluded from the calculation of diluted net loss per shares as it was anti-dilutive due to a net loss available to common shareholders.

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

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Lands | Hydroelectric facilities | Wind farm facilities | Solar facility | Facilities under construction | Other equipments | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at January 1, 2014 | 2,141 | 1,063,065 | 370,729 | 124,205 | 201,742 | 7,473 | 1,769,355 |
| Additions | 161 | 2,896 | 399 | — | 158,966 | 887 | 163,309 |
| Business acquisitions (Note 3) | 230 | 115,317 | — | — | | — | 115,547 |
| Transfer of assets upon commissioning | — | 154,175 | — | — | (154,175) | — | — |
| Transfer from projects under development | — | — | — | — | 17,279 | — | 17,279 |
| Dispositions | — | (298) | — | — | — | (185) | (483) |
| Other changes | — | (28) | — | — | — | (82) | (110) |
| Net foreign exchange differences | 5 | 299 | — | — | — | 7 | 311 |
| **As at September 30, 2014** | 2,537 | 1,335,426 | 371,128 | 124,205 | 223,812 | 8,100 | 2,065,208 |
| | | | | | | | |
| **Accumulated depreciation** | | | | | | | |
| As at January 1, 2014 | — | (107,529) | (64,772) | (9,915) | — | (3,722) | (185,938) |
| Depreciation | — | (22,076) | (13,280) | (4,463) | — | (1,096) | (40,915) |
| Dispositions | — | 30 | — | — | — | 151 | 181 |
| Other changes | — | 10 | — | — | — | 86 | 96 |
| Net foreign exchange differences | — | (94) | — | — | — | (5) | (99) |
| **As at September 30, 2014** | — | (129,659) | (78,052) | (14,378) | — | (4,586) | (226,675) |
| | | | | | | | |
| **Carrying amount as at September 30, 2014** | 2,537 | 1,205,767 | 293,076 | 109,827 | 223,812 | 3,514 | 1,838,533 |

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

Additions in the current cumulated period include $2,649 of capitalized financing costs ($13,359 for the year ended December 31, 2013) incurred prior to their intended use.

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

The cost of facilities were reduced by investment tax credits of $1,161 ($1,161 as at December 31, 2013).

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

## 9. LONG-TERM DEBT

### a. Sainte-Marguerite

As part of the Sainte-Marguerite Acquisition, the Corporation assumed a $30,796 term loan, bearing interest at 7.4%, repayable in monthly blended payments of principal and interest totaling $360, increasing over the years and maturing in 2025. The term loan was accounted for at its fair market value of $37,455 for an effective rate of 3.30%.

The loan is secured by all SM-1 LP's assets with a carrying value of approximately $138,841.

Concurrent with the acquisition of the SM-1 facility, a debenture was issue by SM-1 LP to Desjardins Group Pension Plan for total proceeds of $40,901. This debenture carries an interest rate of 8.0%, has no predetermined repayment schedule and matures in 2064.

### b. Montagne-Sèche

In May 2014, the Corporation has renegociated the loan to extend the maturity to June 2021. As at September 30, 2014, the loan bears interest at banker's acceptance rate plus an applicable margin.

### c. Tretheway

On September 30, 2014, the Corporation has closed a $92,900 non-recourse construction and term project financing for the Tretheway Creek run-of-river hydroelectric project. The construction loan will carry a fixed interest rate of 4.99%; upon the start of the project’s commercial operation, it will convert into a 40-year term loan and the principal will begin to be amortized over a 35-year period, starting in the sixth year. As of September 30, 2014, no amount has been drawn on this loan.

## 10. SHAREHOLDERS' CAPITAL

### a) Common shares

Details of common shares issued are shown in the Consolidated Statements of Changes in Shareholders' Equity.

## 11. DIVIDENDS

The following are the dividends paid by the Corporation during the year.

| Record date | Payment date | Dividends per common share ($) | Dividends per Preferred Series A share ($) | Dividends per Preferred Series C share ($) |
|---|---|---|---|---|
| 12/31/2013 | 1/15/2014 | 0.1450 | 0.3125 | 0.359375 |
| 3/31/2014 | 4/15/2014 | 0.1500 | 0.3125 | 0.359375 |
| 6/28/2014 | 7/15/2014 | 0.1500 | 0.3125 | 0.359375 |
| 9/30/2014 | 10/15/2014 | 0.1500 | 0.3125 | 0.359375 |
| | | 0.5950 | 1.2500 | 1.437500 |

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

## 12. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

### a. Changes in non-cash operating working capital items

| | Nine months ended September 30 | |
|---|---|---|
| | 2014 | 2013 |
| Accounts receivable and income tax receivable | (16,370) | 16,507 |
| Prepaid and others | (3,219) | (2,528) |
| Accounts payable, other payables and income tax liabilities | 10,186 | (6,804) |
| | (9,403) | 7,175 |

### b. Additional information

| | Nine months ended September 30 | |
|---|---|---|
| | 2014 | 2013 |
| Interest paid (including $2477 capitalized interest ($9,517 in 2013)) | 58,360 | 54,146 |
| *Non-cash transactions* | | |
| in unpaid property, plant and equipment | 24,778 | (2,092) |
| in unpaid development costs | (7,030) | (635) |
| in unpaid intangible assets | — | (27) |
| in unpaid issuance costs of preferred shares | — | (353) |
| in common shares issued through dividend reinvestment plan | (7,230) | (12,450) |
| acquisition of assets for a project under development in exchange of the increase of a non-controlling interest in a subsidiary | (2,300) | — |

## 13. SUBSIDIARIES

### 13.1 Mesgi'g Ugju's'n (MU) Wind Farm L.P. and Its General Partner

In March 2014, the Corporation and its Mi'gmaq partner signed a 20-year fixed-price Purchase Power Agreement. This project is for the construction and operation of a wind farm located in Québec. According to the agreement signed, the voting rights held by non-controlling interest is 50% even though the Corporation owns more than 50% of the economic interest in Mesgi'g Ugju's'n (MU) Wind Farm L.P.

The summarized financial information below represents amounts before intragroup eliminations.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| As at | September 30, 2014 |
|---|---|
| **Summary Statement of Financial Position** | |
| Current assets | 5,305 |
| Non-current assets | 8,976 |
| Current liabilities | 12,821 |
| Non-current liabilities | — |
| Equity attributable to owners | 2,431 |
| Non-controlling interest | (971) |

| | Period of 193 days ended September 30, 2014 |
|---|---|
| **Summary Statement of Loss and Comprehensive loss** | |
| Revenues | — |
| Expenses | 8,490 |
| Net loss and comprehensive loss | (8,490) |
| Net loss and comprehensive loss attributable to: | |
| Owners of the parent | (5,219) |
| Non-controlling interest | (3,271) |
| | (8,490) |
| **Summary Statement of Cash Flows** | |
| Net cash inflow from operating activities | 462 |
| Net cash inflow from financing activities | 6,451 |
| Net cash outflow from investing activities | (1,525) |
| Net increase in cash and cash equivalents | 5,388 |

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

### 13.2 Innergex Sainte-Marguerite, S.E.C. ("SM-1 LP") and Its General Partner

On June 20, 2014, the Corporation signed an asset purchase agreement for the acquisition of 50.01% of the SM-1 hydroelectric facility.

Concurrent with the acquisition of the SM-1 facility, Desjardins subscribed to a debenture issued by SM-1 LP for total proceeds of $40,901. This debenture carries an interest rate of 8.0%, has no predetermined repayment schedule and matures in 2064.

In addition, Desjardins has invested an amount of $5 in participating units of SM-1 LP. This is reflected in the non-controlling interest account.

The summarized financial information below represents amounts before intragroup eliminations.

| As at | September 30, 2014 |
|---|---|
| **Summary Statement of Financial Position** | |
| Current assets | 3,248 |
| Non-current assets | 136,207 |
| Current liabilities | 6,576 |
| Non-current liabilities | 117,483 |
| Equity attributable to owners | 15,959 |
| Non-controlling interest | (563) |

| | Period of 103 days ended September 30, 2014 |
|---|---|
| **Summary Statement of Loss and Comprehensive loss** | |
| Revenues | 2,788 |
| Expenses | 3,924 |
| Net loss and comprehensive loss | (1,136) |
| Net loss and comprehensive loss attributable to: | |
| Owners of the parent | (568) |
| Non-controlling interest | (568) |
| | (1,136) |
| **Summary Statement of Cash Flows** | |
| Net cash inflow from operating activities | 1,252 |
| Net cash inflow from financing activities | 40,897 |
| Net cash outflow from investing activities | (39,770) |
| Net increase in cash and cash equivalents | 2,379 |

### 13.3 Financial support to structured entity

Based on the contractual arrangements between the Corporation and the other partner signed during the first quarter of 2014, the Corporation concluded that it has control over Mesgi'g Ugju's'n (MU) Wind Farm L.P.

The Corporation is responsible for financing equity required by the project. Mi'gmawei Mawiomi Resources L.P., the other partner, can participate in the financing of the equity for an amount up to a maximum of $10,000.

The Corporation invested a total of $7,650 in Mesgi'g Ugju's'n (MU) Wind Farm L.P. preferred units. This investment provides the Corporation with revenues in the form of preferred distributions. During the second quarter of the year 2014, the Mi'gmaq partner also invested an amount of $2,300 in preferred units of the Mesgi'g Ugju's'n (MU) Wind farm L.P.

Distributions on preferred units will subsequently be payable subject to the availability of gross revenues. The cumulated distributions on preferred units are payable before making any distributions on common units.

## 14. RELATED PARTY TRANSACTIONS

The Harrison Hydro L.P. distributed $13,600 in 2013. The funds were distributed in the form of non-interest bearing loans of $6,798 each to the Corporation and its partners, which were presented as loans to partners as at December 31, 2013. On January 1, 2014, the $6,798 loans were reimbursed directly from distributions from the Harrison Hydro L.P. and a corresponding decrease in non-controlling interests was recorded in 2014 with no impact to cash flows.

## 15. SEGMENT INFORMATION

### Geographic segments

The Corporation owns interests in 25 hydroelectric facilities, six wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the three- and nine-month periods ended September 30, 2014, revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled $1,423 and $3,182 ( $1,334 and $2,808 in 2013), representing a contribution of 2.1% and 1.8% (2.3% and 1.8% in 2013) to the Corporation’s consolidated revenues for these periods.

### Operating segments

The Corporation has four operating segments: (a) hydroelectric generation (b) wind power generation (c) solar power generation and (d) site development.

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

The accounting policies for these segments are the same as those described in the significant accounting policies. The Corporation evaluates performance based on earnings (loss) before finance costs, income taxes, depreciation, amortization, other net revenues, share of (earnings) loss of joint ventures and unrealized net (gain) loss on derivative financial instruments. The Corporation accounts for inter-segment and management sales at cost. Any transfers of assets from the site development segment to the hydroelectric, wind power generation or solar power generation segments are accounted for at cost.

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

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

| **Three-month period ended September 30, 2014**<br>Operating segments | Hydroelectric generation | Wind power generation | Solar power generation | Site development | Total |
|---|---|---|---|---|---|
| Revenues | 49,674 | 11,153 | 5,544 | — | 66,371 |
| Expenses: | | | | | |
| Operating | 7,530 | 2,173 | 265 | — | 9,968 |
| General and administrative | 2,179 | 473 | 78 | 349 | 3,079 |
| Prospective projects | — | — | — | 1,656 | 1,656 |
| Earnings before finance costs, income taxes, depreciation, amortization, other net expenses, share of loss of joint ventures and unrealized net loss on derivative financial instruments | 39,965 | 8,507 | 5,201 | (2,005) | 51,668 |
| Finance costs | | | | | 21,682 |
| Other net expenses | | | | | 8,776 |
| Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and unrealized net loss on derivative financial instruments | | | | | 21,210 |
| Depreciation | | | | | 13,577 |
| Amortization | | | | | 5,075 |
| Share of loss of joint ventures | | | | | 390 |
| Unrealized net loss on derivative financial instruments | | | | | 6,934 |
| Loss before incomes taxes | | | | | (4,766) |

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

| **Three-month period ended September 30, 2013** | | | | | |
|---|---|---|---|---|---|
| Operating segments | Hydroelectric generation | Wind power generation | Solar power generation | Site development | Total |
| Revenues | 40,550 | 11,493 | 5,996 | — | 58,039 |
| Expenses: | | | | | |
| Operating | 5,800 | 2,123 | 262 | — | 8,185 |
| General and administrative | 1,635 | 410 | 74 | 276 | 2,395 |
| Prospective projects | — | — | — | 771 | 771 |
| Earnings before finance costs, income taxes, depreciation, amortization, other net revenues, share of earnings of joint ventures and unrealized net gain on derivative financial instruments | 33,115 | 8,960 | 5,660 | (1,047) | 46,688 |
| Finance costs | | | | | 17,279 |
| Other net revenues | | | | | (158) |
| Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments | | | | | 29,567 |
| Depreciation | | | | | 12,333 |
| Amortization | | | | | 4,760 |
| Share of earnings of joint ventures | | | | | (816) |
| Unrealized net gain on derivative financial instruments | | | | | (2,404) |
| Earnings before incomes taxes | | | | | 15,694 |

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

| **Nine-month period ended September 30, 2014** Operating segments | Hydroelectric generation | Wind power generation | Solar power generation | Site development | Total |
|---|---|---|---|---|---|
| Revenues | 120,741 | 38,248 | 14,630 | — | 173,619 |
| Expenses: | | | | | |
| Operating | 21,134 | 6,651 | 853 | — | 28,638 |
| General and administrative | 6,531 | 1,989 | 243 | 1,200 | 9,963 |
| Prospective projects | — | — | — | 4,204 | 4,204 |
| Earnings before finance costs, income taxes, depreciation, amortization, other net expenses, share of loss of joint ventures and unrealized net loss on derivative financial instruments | 93,076 | 29,608 | 13,534 | (5,404) | 130,814 |
| Finance costs | | | | | 65,815 |
| Other net expenses | | | | | 7,864 |
| Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and unrealized net loss on derivative financial instruments | | | | | 57,135 |
| Depreciation | | | | | 40,915 |
| Amortization | | | | | 15,515 |
| Share of loss of joint ventures | | | | | 1,182 |
| Unrealized net loss on derivative financial instruments | | | | | 72,111 |
| Loss before income taxes | | | | | (72,588) |

| **As at September 30, 2014** | | | | | |
|---|---|---|---|---|---|
| Goodwill | 8,269 | — | — | — | 8,269 |
| Total assets | 1,750,000 | 364,680 | 124,926 | 362,070 | 2,601,676 |
| Total liabilities | 1,250,851 | 241,383 | 113,667 | 391,868 | 1,997,769 |
| Acquisition of property, plant and equipment since the beginning of the year | 3,784 | 399 | 161 | 158,965 | 163,309 |

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

| Nine-month period ended September 30, 2013<br>Operating segments | Hydroelectric generation | Wind power generation | Solar power generation | Site development | Total |
|---|---|---|---|---|---|
| Revenues | 103,736 | 38,791 | 14,367 | — | 156,894 |
| Expenses: | | | | | |
| Operating | 15,445 | 6,597 | 860 | — | 22,902 |
| General and administrative | 5,388 | 1,568 | 241 | 1,124 | 8,321 |
| Prospective projects | — | — | — | 2,320 | 2,320 |
| Earnings before finance costs, income taxes, depreciation, amortization, other net expenses, share of earnings of joint ventures and unrealized net gain on derivative financial instruments | 82,903 | 30,626 | 13,266 | (3,444) | 123,351 |
| Finance costs | | | | | 49,057 |
| Other net expenses | | | | | 427 |
| Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments | | | | | 73,867 |
| Depreciation | | | | | 36,341 |
| Amortization | | | | | 15,665 |
| Share of earnings of joint ventures | | | | | (4,522) |
| Unrealized net gain on derivative financial instruments | | | | | (33,560) |
| Earnings before income taxes | | | | | 59,943 |

| As at December 31, 2013 | | | | | |
|---|---|---|---|---|---|
| Goodwill | 8,269 | — | — | — | 8,269 |
| Total assets | 1,449,527 | 387,062 | 128,146 | 412,339 | 2,377,074 |
| Total liabilities | 949,570 | 248,594 | 116,085 | 396,890 | 1,711,139 |
| Acquisition of property, plant and equipment during the year | 66,581 | 1,213 | 100 | 89,501 | 157,395 |

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

## 16. SUBSEQUENT EVENTS

### a. Dividends declared by the Board of Directors

| Date of announcement | Record date | Payment date | Dividend per common share ($) | Dividend per Series A Preferred Share ($) | Dividend per Series C Preferred Share ($) |
|---|---|---|---|---|---|
| 11/06/2014 | 12/31/2014 | 01/15/2015 | 0.1500 | 0.3125 | 0.359375 |

### b. Innergex Extends and Temporarily Increases Its Revolving Term Credit Facility

On November 6, 2014 the Corporation executed an amending agreement to extend its revolving term credit facility from 2018 to 2019, as well as to temporarily increase its borrowing capacity by $50,000 for a period of eight months, from $425,000 to $475,000. These modifications will provide greater financing flexibility until the Corporation closes the four project-level financings that remain to be put in place.

# INFORMATION FOR INVESTORS

## Stock Exchange Listing

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

## Rating Agencies

Innergex Renewable Energy Inc. is rated BBB- by S&P.
Series A Preferred Shares of Innergex Renewable Energy Inc. are rated P-3 by S&P.
Series C Preferred Shares of Innergex Renewable Energy Inc. are rated P-3 by S&P.

## Transfer Agent and Registrar

Computershare Investor Services Inc.
1500 University Street, Suite 700, Montreal, Quebec, H3A 3S8
Telephone: 1 800 564-6253 or 514 982-7555
Email: service@computershare.com

## Dividend Reinvestment Plan

Innergex Renewable Energy Inc. implemented a Dividend Reinvestment Plan (DRIP) for its common shareholders, which enables eligible holders of common shares to acquire additional common shares of the Corporation by reinvesting all or part of their cash dividends. For more information about the Corporation's DRIP, please visit our Website or contact the DRIP administrator, Computershare Trust Company of Canada.

## Independent Auditor

Deloitte LLP

## Investor Relations

If you have inquiries, please visit our website or contact:

Jean Trudel, MBA
Chief Investment Officer and Senior Vice President – Communications

Marie-Josée Privyk, CFA, SIPC
Director – Investor Relations and Sustainable Development

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