

# FINANCIAL REVIEW

AT DECEMBER 31, 2015

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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 are listed under the symbol INE.DB.A.

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

## 2015 HIGHLIGHTS

**T**he Corporation closed \$1,000.5 million of project financing. It completed project financing for the Boulder Creek, Upper Lillooet River and Big Silver Creek hydroelectric projects in British Columbia, for a total of \$688.8 million. It also closed project financing of \$311.7 million for the Mesgi'g Ugju's'n wind project located in Quebec.

**T**he Corporation reviewed the total anticipated project costs to achieve the completion of the Tretheway Creek project and the three projects under construction. Savings of \$36.0 million are expected over the previously estimated total project costs.

**C**onstruction began at the Mesgi'g Ugju's'n wind project in Quebec. The Mesgi'g Ugju's'n project is a 150 MW wind project jointly owned by the three Mi'gmaq First Nations of Quebec, namely the Gesgapegiag, Gespeg and Listuguj nations, and by Innergex.

**T**he Corporation issued \$100.0 million of convertible debentures bearing interest at 4.25% and redeemed \$41.6 million and converted \$38.0 million of an outstanding principal of \$80.5 million of convertible debentures bearing interest at 5.75%.

**I**nnergex and the Cayoose Creek Band signed an agreement for the joint acquisition of the Walden North Hydroelectric project in British Columbia for \$9.2 million. The acquisition was closed on February 25, 2016.

**T**he Corporation signed a memorandum of understanding with the Comisión Federal de Electricidad ("CFE") to jointly study a number of renewable energy project opportunities in Mexico with the aim of jointly developing selected projects.

**A**s at December 31, 2015, the Corporation had purchased for cancellation 1,190,173 common shares at an average price of \$10.36, under its normal course issuer bid.

## 2015 FINANCIAL PERFORMANCE

Electricity production increased **1%** to 2,987 GWh and was 98% of the long-term average

Revenues rose **2%** to \$246.9 million compared with last year

Adjusted EBITDA rose **2%** to \$183.7 million compared with last year

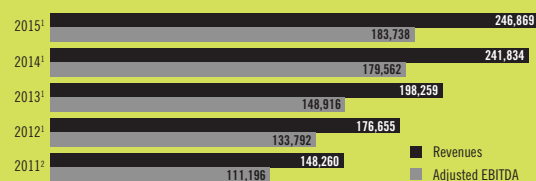
Free Cash Flow generated reached **\$74.4 M**

Payout ratio improved to **86%** compared with 88% last year

On February 24, 2016, the Board of Directors announced an increase in the annual dividend that the Corporation intends to distribute to common shareholders. This annual increase of \$0.02 to \$0.64 per common share, payable quarterly, reflects the execution of the Corporation's strategy for building shareholder value, which is to develop or acquire high-quality renewable power production facilities that generate sustainable cash flows and provide an attractive risk-adjusted return on invested capital, and to distribute a stable dividend.✿

### REVENUES AND ADJUSTED EBITDA

At December 31  
(\$000s)

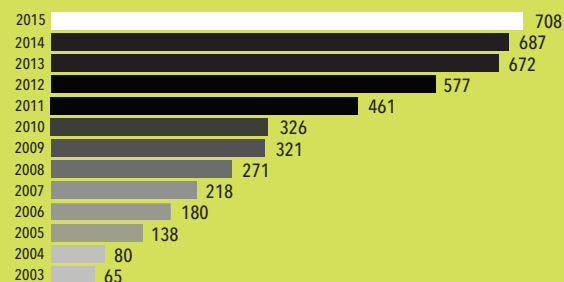


1 Prepared in accordance with IFRS – excluding joint ventures.

2 Including joint ventures.

### NET INSTALLED CAPACITY

At December 31  
(MW)



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## 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 year ended December 31, 2015, and reflects all material events up to February 24, 2016, 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 audited consolidated financial statements and the accompanying notes for the year ended December 31, 2015.

The audited consolidated financial statements attached to this MD&A and the accompanying notes for the year ended December 31, 2015, along with the 2014 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.

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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 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 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 of the Corporation have evaluated the effectiveness of the Corporation's DC&P and ICFR as at December 31, 2015, and have concluded that they were effective and that there were no material weaknesses relating to the DC&P and ICFR for the year ended December 31, 2015. During the year ended December 31, 2015 there was no change to the ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## 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, projected Free Cash Flow, estimated project costs and expected project financing, 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; uncertainties surrounding the development of new facilities; obtaining 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 any power purchase agreement; 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; foreign market growth and development risks; cybersecurity; 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; reliance on shared transmission and interconnection infrastructure; 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 as 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 law.

### 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Principal Assumptions	Principal Risks and Uncertainties
<p><b>Expected production</b></p> <p>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 together the expected LTA of all the facilities in operation that it consolidates (excludes Umbata Falls and Viger-Denonville, which are accounted for using the equity method).</p>	<p>Improper assessment of water, wind and sun resources and associated electricity production</p> <p>Variability in hydrology, wind regimes and solar irradiation</p> <p>Equipment failure or unexpected operations and maintenance activity</p> <p>Natural disaster</p>
<p><b>Projected revenues</b></p> <p>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).</p> <p><b>Projected Adjusted EBITDA</b></p> <p>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). On a consolidated basis, the Company estimates annual Adjusted EBITDA by adding together the projected operating earnings of all the facilities in operation that it consolidates (which excludes Umbata Falls and Viger-Denonville, accounted for using the equity method), from which it subtracts budgeted general and administrative expenses, comprised essentially of salaries and office expenses, and budgeted prospective project expenses, which are determined based on the number of prospective projects the Corporation chooses to develop and the resources required to do so.</p>	<p>Production levels below the LTA caused mainly by the risks and uncertainties mentioned above</p> <p>Unexpected seasonal variability in the production and delivery of electricity</p> <p>Lower-than-expected inflation rate</p> <p>Variability of facility performance and related penalties</p> <p>Changes to water and land rental expenses</p> <p>Unexpected maintenance expenditures</p> <p>Changes in the purchase price of electricity upon renewal of a PPA</p>
<p><b>Estimated project costs, expected obtainment of permits, start of construction, work conducted and start of commercial operation for Development Projects or Prospective Projects</b></p> <p>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.</p> <p>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.</p>	<p>Performance of counterparties, such as the EPC contractors</p> <p>Delays and cost overruns in the design and construction of projects</p> <p>Obtainment of permits</p> <p>Equipment supply</p> <p>Interest rate fluctuations and financing risk</p> <p>Relationships with stakeholders</p> <p>Regulatory and political risks</p> <p>Higher-than-expected inflation</p> <p>Natural disaster</p>

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Principal Assumptions	Principal Risks and Uncertainties
<p><b>Projected Free Cash Flow</b></p> <p>The Corporation estimates Free Cash Flow as projected cash flow from operations before changes in non-cash operating working capital items, less estimated 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 power purchase agreement. It also adjusts for other elements, which represent cash inflows or outflows that are not representative of the Corporation's long-term cash generating capacity, such as 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 derivative financial instruments used to fix the interest rate on project-level debt or the exchange rate on equipment purchases.</p>	<p>Adjusted EBITDA below expectations caused mainly by the risks and uncertainties mentioned above and by higher prospective project expenses</p> <p>Projects costs above expectations caused mainly by the performance of counterparties and delays and cost overruns in the design and construction of projects</p> <p>Regulatory and political risk</p> <p>Interest rate fluctuations and financing risk</p> <p>Financial leverage and restrictive covenants governing current and future indebtedness</p> <p>Unexpected maintenance capital expenditures</p>
<p><b>Intention to submit projects under requests for proposals</b></p> <p>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.</p>	<p>Regulatory and political risks</p> <p>Ability of the Corporation to execute its strategy for building shareholder value</p> <p>Ability to secure new PPAs</p>
<p><b>Intention to gain a foothold in target markets internationally</b></p> <p>The Corporation provides indications of its intention to establish a presence in target markets internationally in the coming years, based on its growth strategy.</p>	<p>Regulatory and political risks</p> <p>Ability of the Corporation to execute its strategy for building shareholder value</p> <p>Ability to secure new PPAs</p> <p>Foreign exchange fluctuations</p>

## NON IFRS MEASURES

This MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). However, some measures referred to in this MD&A are not recognized measures under IFRS and therefore may not be comparable to those presented by other issuers. Innergex believes that these indicators are important, as they provide management and the reader with additional information about the Corporation's production and cash generation 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. Adjusted EBITDA, Free Cash Flow and Payout Ratio are not measures recognized by IFRS and have no standardized meaning prescribed by IFRS.

References in this document to "Adjusted EBITDA" are to revenues less operating expenses, general and administrative expenses and prospective project expenses.

References to "Free Cash Flow" are to cash flows from operating activities 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 declared and the portion of Free Cash Flow attributed to non-controlling interests, plus cash receipts by the Harrison Hydro Limited Partnership for the wheeling services to be provided to other facilities owned by the Corporation over the course of their PPA, plus or minus other elements 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 or the exchange rate on equipment purchases.

References to "Payout Ratio" are to dividends declared on common shares divided by Free Cash Flow. 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## ADDITIONAL INFORMATION AND UPDATES

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](http://www.sedar.com) or on the Corporation's website at [www.innergex.com](http://www.innergex.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.

## 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:

- 34 facilities in commercial operation (the "Operating Facilities"). Commissioned between November 1994 and October 2015, the facilities have a weighted average age of approximately 8.1 years. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 18.1 years (based on gross long-term average production);
- Two projects scheduled to begin commercial operation by the end of 2016 and two projects scheduled to start commercial operations in the first and second quarter of 2017 (all together the "Development Projects"). Construction is ongoing at all four of these projects;
- Numerous projects that have secured 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

<b>INNERGEX</b>					
<b>Operating Facilities</b>		<b>Development Projects</b>		<b>Prospective Projects</b>	
<b>Hydro</b>					
Gross capacity:	568.2 MW		147.3 MW		1,000.0 MW
Net capacity <sup>1</sup> :	438.9 MW		111.7 MW		900.0 MW
<b>Wind</b>					
Gross capacity:	614.1 MW		150.0 MW		2,450.0 MW
Net capacity <sup>1</sup> :	236.3 MW		75.0 MW		2,300.0 MW
<b>Solar</b>					
Gross capacity:	33.2 MW		-		80.0 MW
Net capacity <sup>1</sup> :	33.2 MW		-		80.0 MW
<b>Total</b>					
Gross capacity:	1,215.5 MW		297.3 MW		3,530.0 MW
Net capacity <sup>1</sup> :	708.4 MW		186.7 MW		3,280.0 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.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## BUSINESS STRATEGY

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

### Produce Only Renewable Energy

The Corporation is committed to producing electricity exclusively from renewable energy sources.

### Develop Sustainably

In conducting its business, the Corporation strives to achieve a balance between economic, social and environmental considerations and is committed to planning, deciding, managing, and operating through the lens of sustainability.

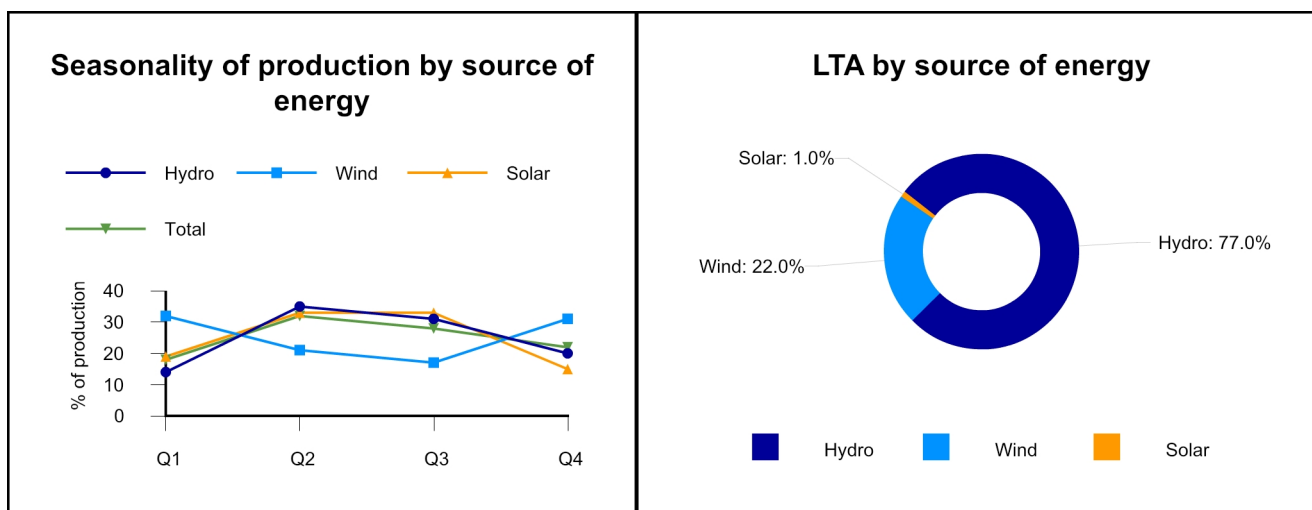
### Maintain Diversification of Energy Sources

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 27 hydroelectric facilities, which draw on 24 watersheds, 6 wind farms and 1 solar farm, providing significant diversification in terms of operating revenue sources. Furthermore, the nature of hydroelectric, wind and solar power generation partially offsets any seasonal variations, as illustrated in the following table and charts:

Consolidated long-term average production <sup>1</sup>									
In GWh and %	Q1		Q2		Q3		Q4		Total
HYDRO	335.4	14%	848.4	35%	740.9	31%	491.1	20%	2,415.9
WIND	213.6	32%	142.8	21%	112.8	17%	207.3	31%	676.5
SOLAR <sup>2</sup>	7.2	19%	12.4	33%	12.5	33%	5.7	15%	37.9
<b>Total</b>	<b>556.2</b>	<b>18%</b>	<b>1,003.6</b>	<b>32%</b>	<b>866.2</b>	<b>28%</b>	<b>704.1</b>	<b>22%</b>	<b>3,130.3</b>

1. Annualized long-term average production ("LTA") for the facilities in operation at February 24, 2016. 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.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## Develop Strategic Relationships

Strategic relationships and partnerships are an important component of the Corporation's business strategy. When the Corporation teams up with a strategic or financial partner, the Corporation and the partner share ownership of the projects concerned. Current strategic partners include TransCanada Energy Ltd. (owner of 62% of the Baie-des-Sables, L'Anse-à-Valleau, Carleton, Montagne Sèche and Gros-Morne wind farms), the Ojibways of the Pic River First Nations (owner of 51% of the Umbata Falls facility), the Kanaka Bar Indian Band (owner of 50% of the Kwoiek Creek facility), the Rivière-du-Loup Regional County Municipality (owner of 50% of the Viger-Denonville community wind farm), Ledcor Power Group Ltd. (owner of 33<sup>1</sup>/<sub>3</sub>% of the Fitzsimmons Creek facility, the Boulder Creek and Upper Lillooet River Development Projects as well as other Creek Power Inc. Prospective Projects), the Mi'gmawei Mawiomí (or the Mi'gmaq First Nations of Quebec) (owner of 50% of the Mesgi'g Ugju's'n wind Development Project) and the Minganie Regional County Municipality (owner of 0.001% of the common units and 30% of the voting units of the Magpie hydroelectric facility). Current financial partners include CC&L Harrison Hydro Project Limited Partnership and LPF (Surfside) Development L.P. (owners of 34.99% and 15.00% of Harrison Hydro Limited Partnership respectively) as well as the Desjardins Group Pension Plan (owner of 49.99% of the SM-1 hydroelectric facility).

## Pursue Opportunities for Renewable Energy Growth

Growing awareness and concern over issues such as climate change, access to clean energy, energy security, energy efficiency and the environmental impacts of conventional fossil fuels are leading governments around the world to increase their demand for and commitments to the development of renewable energy supply. Consequently, the Corporation believes that the outlook for the renewable energy industry is promising.

### Key Growth Factors

The Corporation's future growth will be affected by the following key factors:

- Demand for renewable energy;
- Stable and long-term government policies for the procurement of new renewable energy capacity, whether through requests for proposals or other mechanisms;
- Its capacity to evaluate and secure the best prospective sites for the development of new projects in cooperation with local communities;
- Its ability to enter into attractive PPAs and obtain the required environmental and other permits;
- Its ability to adequately forecast total construction costs, expected revenues and expected expenses for each project;
- Its ability to make accretive acquisitions; and
- Its ability to finance its growth.

### Key Geographic Markets

On December 21, 2015, the Quebec government, in collaboration with Hydro-Québec, announced the issuance of a 200 MW block of wind energy to the Innu First Nation in the province's Côte-Nord region and the Corporation plans to seek opportunities in relation thereto. The Corporation remains confident in the long-term viability of the small hydro and wind energy sectors in this province and has a number of projects that it continues to advance for future renewable energy procurement opportunities. Furthermore, the prices of the recent request for proposals demonstrate the competitiveness of renewable energy in Quebec, even in the context of weak fossil fuel prices and large hydroelectric dam procurement capabilities.

In Ontario, the government has instituted a competitive procurement process, the Large Renewable Procurement ("LRP") that will take into account local needs and considerations, including those of municipalities and First Nations. The LRP is currently underway with procurement targets of 300 MW of wind energy, 140 MW of solar energy, 75MW for water power, and 50MW for bioenergy. The LRP II procurement process, which is expected to begin in late 2016, may procure up to 300 MW of wind energy and 150 MW of solar energy, with planned annual revisions thereafter. The Corporation has a number of wind and solar projects that it continues to advance in preparation for submissions under these competitive bid processes. In 2015, the Corporation submitted bids for one solar project and one wind project, both in partnership with a First Nations partner, and is awaiting response from the governing authorities in Q1 2016. Other prospective projects in Ontario, especially in the wind sector, remain predicated on both the transmission grid expansion in the northern part of the province and decisions regarding nuclear refurbishment to represent longer-term growth potential.

In British Columbia, while the government has stated its support for a healthy, diverse clean energy sector and clean energy opportunities for First Nations, it has provided no specific procurement targets for renewable energy at this time beyond the

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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Standing Offer Program (150 GWH/year). Furthermore, the province is currently experiencing decreasing demand for electricity over the short term, although the longer term forecast is for an increase. While plans remain to develop its mining and liquefied natural gas ("LNG") sectors, they have been delayed due to the current global economy. Construction has commenced on BC Hydro's 1,100 MW Site-C hydroelectric dam project, which is scheduled to reach commercial operation in 2024 and which may reduce some prospects for independent power producers. Site-C is a component of BC Hydro's Integrated Resource Plan (IRP), which was approved by the BC government in November 2013 and is now scheduled to be updated in 2016, once the province has announced its Climate Leadership Plan. The IRP is a flexible long-term strategic plan to meet this province's growth in electricity demand over the next 20 years.

In the United States, the Corporation will continue to selectively assess potential opportunities, particularly in light of the current U.S. administration's focus on addressing climate change and reducing GHG emissions as well as the existence of renewable portfolio standards in several states and the increasing procurement of renewable energy. According to the US Energy Information Association (EIA), electricity generation from renewable energy is expected to rise from 12% in 2012 to 16% by 2040. In the short term, generation from renewable resources is expected to grow in response to federal tax credits and state-level policies. However, in the long term, renewable generation growth is expected to be driven by increasing cost competitiveness with other non-renewable technologies. In many markets across the US, wind and solar energy are already among the least costly new generation sources, even compared with currently low-cost natural gas.

To replenish its sources of long-term growth, the Corporation has identified a number of target markets internationally in which it expects to gain a foothold in the coming years. In developing economies in Latin America, demand for electricity remains strong and governments are seeking to increase the production of renewable energy, of which they have an ample supply. More economically mature countries in Europe have adopted ambitious GHG emissions reduction targets and governments are seeking to reduce their dependency on conventional forms of generation, both of which developments require a greater proportion of renewable energy in these countries' energy portfolios. There are a number of markets to which the Corporation believes it can largely transpose its business model for developing and operating renewable energy assets.

In Mexico, the Corporation announced on October 13, 2015, that it had signed a memorandum of understanding with the Comisión Federal de Electricidad (CFE), a productive government enterprise that produces and distributes electricity to more than 38.5 million customers representing 120 million Mexicans, to jointly study a number of renewable energy project opportunities in Mexico with the aim of jointly developing selected projects. The main purpose of the agreement is to coordinate efforts and develop activities that will allow Innergex and CFE to define their joint participation in the development of prospective renewable energy projects, in particular small hydroelectric plants of less than 200 MW.

Over the past two years, the Mexican government has undertaken vast reforms of its electricity market, opening it to private power producers. The government has implemented ambitious targets to increase capacity to meet the rapidly growing demand for electricity, while also transitioning from fossil fuel to renewable energy generation in order to achieve greenhouse gas emission reduction targets. As the country's largest electricity producer, CFE is looking to make significant investments in order to meet the annual renewable energy quotas.

On November 30, 2015, Mexico's National Energy Control Center ("CENACE") released the tender rules ("Tender Rules") for participating in Mexico's First Long-Term Energy Auction (the "Auction"). The purpose of the Auction is to award Electricity Coverage Agreements on behalf of the CFE for the acquisition of Electric Power, Accruable Electric Energy and Clean Energy Certificates.

In France, the Corporation is actively assessing a number of renewable energy opportunities and hopes to establish its presence during the course of 2016. Since 2007, France has put in place an ambitious strategy for the development of renewable energies within its territory. France's energy policy emphasizes the implementation of renewable energies with a targeted additional production of 20 megatonnes of oil equivalent (Mtoe) compared with 2006, or an approximate doubling in production of renewable energies by 2020.

## **Pursue Growth Opportunities Through Acquisitions**

Acquisitions are another important component of the Corporation's business strategy. More specifically, the Corporation will seek acquisitions that will enable it to gain a foothold and develop a critical mass in identified target markets internationally. It will also seek acquisitions in order to consolidate its leadership position in the Canadian renewable energy industry. As it has done in the past, Innergex will continue to focus on hydroelectric, wind and solar power generation assets. The Corporation could also grow through expansion into other forms of renewable energy production if profitable opportunities arise.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## Maintain Capacity for Delivering Results

The Corporation does business in a competitive sector. The experience and dedication of its management team constitute its strongest asset. Through careful management, it has established a track record of completing projects by the commercial operation start date specified in their PPA while adhering to the established construction budgets. The Corporation's employees possess the specialized knowledge and skills necessary to carry out its business. The Corporation can also rely on a network of technical, financial and legal partners and has proved its ability to complement its internal capabilities with efficient use of external consultants when required. In addition, the Corporation retains the services of several engineering firms to assist with the feasibility analysis of its projects. As at December 31, 2015, the Corporation employed a total of 188 persons (including Cartier Wind Energy employees).

## Use Key Performance Indicators

The Corporation measures its performance using key performance indicators that include or could include comparing power generated in megawatt-hours ("MWh") and gigawatt-hours ("GWh") with a long-term average, Adjusted EBITDA and Adjusted EBITDA Margin, Free Cash Flow and Payout Ratio. These indicators are not recognized measures under IFRS, have no standardized meaning prescribed by IFRS and therefore may not be comparable with those presented by other issuers. The Corporation believes that these indicators are important, as 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. Please refer to the "Non-IFRS Measures" section for more information.

## Dividend Policy

The Corporation intends to distribute an annual dividend of \$0.64 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.

## MARKET TRENDS

Renewable power producers are involved in the generation of electricity from renewable energy sources including hydro, wind, solar, landfill gas and geothermal sources.

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

There are several factors that explain the growing role played by independent power producers in supplying renewable power in North America, including: the growing demand for energy; increasing awareness of the benefits of renewable energy in addressing the impacts of climate change; the increase in government-sponsored incentives to develop renewable energy capacity; the availability of long-term renewable energy purchase contracts with highly creditworthy counterparties, allowing independent power producers to develop new projects in a low-risk environment with the expectation of stable long-term contractual cash flows; the implementation of non-discriminatory access to transmission systems, providing independent power producers with access to regional electricity markets; and the rapidly improving cost-competitiveness of renewable energy and efficiency of independent power producers. While the plentiful supply of natural gas in recent years has resulted in low market prices that have increased the attractiveness of this source of energy for producing electricity in many parts of the world, technological improvements and economies of scale have significantly reduced the costs of renewable energy procurement, in particular wind and solar power. In many markets, electricity produced from these sources is cost-competitive with energy produced from natural gas and its cost is much more stable over the long run because it is not subject to fluctuations in the price of the underlying resource year over year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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Over and above the foregoing, a significant push for developing renewable energy worldwide and implementing a global energy transition toward clean and renewable energy came during the 21st Conference of Parties, which was held in Paris, France from November 30 to December 11, 2015. According to the United Nations Environmental Program, the international political response to climate change began at the Rio Earth Summit in 1992, where the "Rio Convention" included the adoption of the UN Framework on Climate Change. This convention set out a framework for action aimed at stabilizing atmospheric concentrations of greenhouse gases to avoid "dangerous anthropogenic interference with the climate system." The 2015 Paris Climate Conference was one of the largest international conferences ever held in the country and attracted close to 50,000 participants, including 25,000 official delegates from government, intergovernmental organizations, UN agencies, NGOs and civil society. The agreement that came out of the 2015 Paris Climate Conference (the "Paris Agreement") is a legally binding, universal agreement on climate, with the aim of keeping global warming well below 2°C. The Paris Agreement establishes long-term vision in order to greatly reduce global emissions and phase out carbon from the world's energy sources through an ambitious deployment of and important transition to renewable energy within each national energy strategy.

## Renewable Power in Canada

Over the past few years, the significant growth in renewable power generation in Canada has resulted from: rising electricity and fossil fuel prices; the increased cost of large-scale hydroelectric sites; public concern over nuclear power generation, air quality, and greenhouse gases; improvements in renewable energy technologies; and shorter construction lead times for some renewable energy projects. Renewable electricity generation in Canada is also supported by federal and provincial incentives, such as long-term fixed price contracts, accelerated depreciation and Renewable Portfolio Standards, which are explained below.

In response to the long-term trend toward stronger environmental protection policies, many provincial governments have introduced Renewable Portfolio Standards ("RPS"), which typically set a target for an increased component of renewable energy in their electricity generation supply mix in order to reduce greenhouse gas emissions over time. These RPS typically reflect the distinct resource issues associated with electricity generation, given the provinces' respective electricity industry structures and geographical conditions. While RPS are sometimes applied and implemented as goals or targets rather than mandatory requirements, provincial authorities or their utilities are using RPS to source renewable generation resources and, in some cases, offer PPAs through competitive bidding processes. The competitive bidding process seeks to ensure that the RPS are achieved at the lowest possible cost and with the highest probability of project completion. By simplifying the negotiation and financing processes and decreasing the transactional costs for obtaining a long-term PPA, these mechanisms can contribute to meeting renewable energy generation goals. Several provinces have set a specific target percentage of electricity to be generated from renewable sources, including British Columbia (93% of total electricity from clean or renewable resources), Ontario (increase hydro energy capacity to 9,300 MW and to develop 10,700 MW of wind, solar and bioenergy installed capacity by 2021) and Quebec (develop 4,000 MW of wind energy capacity by 2015 whereby 3,262 MW have actually been developed with another 700 MW due to become active in the next two years and an additional 100 MW of wind energy for every 1,000 MW of additional hydroelectric power).

Canada enjoys a unique abundance of hydrological resources. With an estimated installed hydroelectric capacity of more than 75,000 MW, it is the third largest hydroelectric energy producer in the world. Furthermore, according to the Canadian Hydropower Association, the country has an undeveloped, technically feasible potential estimated at 163,000 MW. Despite the competition for appropriate sites and the challenges associated with power transmission over great distances, the low operational costs and long project lives of these facilities suggest that hydroelectric power generation will remain a major affordable supply source for many years. Transmission corridors in Canada have traditionally run directly from major generation facilities to major demand centres, meaning that strategic investments in new transmission corridors will play an important role in the development of hydroelectric projects and other isolated renewable energy generation projects.

Over the last few years, according to the National Energy Board, wind power has become commercially viable and emerged as the fastest growing segment of the renewable power industry in Canada. The Canadian Wind Energy Association ranks Canada as the seventh largest producer of wind energy in the world, with an installed wind power capacity of more than 11,205 MW, and sixth in the world for the amount of capacity added in 2015, with 1,506 MW of new wind energy commissioned in line with its objective to commission 1,500 MW of new wind energy annually over the next few years. Several reasons explain the robustness of the wind energy industry, including the improving cost-competitiveness of wind energy due to economies of scale and technological improvements, provincial RPS, relatively short construction time lines, favourable wind resources, including strong winds across a wide range of rural areas and vast shorelines, and provincial renewable energy RFPs. The usual challenges of resource availability and transmission exist in Canada and, in some areas, access to transmission lines with available capacity is an economic or regulatory consideration.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

A solar energy industry has emerged in Canada in recent years, particularly in Ontario. During a conference sponsored by the Canadian Solar Industries Association held in May 2015, the Minister of Energy of Ontario stated that Ontario has 1550 MW of solar power installed in the province with another 825 MW contracted and under development. While more expensive than conventional and other renewable sources of energy, production costs for solar energy continue to decline due to technological improvements and economies of scale. The Ontario government has announced its intention to support its solar energy industry and is currently undertaking a 140 MW procurement of solar energy and is expected to procure another 150 MW in late 2016.

## SELECTED ANNUAL INFORMATION

	Year ended December 31		
	2015	2014	2013
<b>PRODUCTION</b>			
Power generated (MWh)	2,987,637	2,962,450	2,381,820
LTA (MWh)	3,054,642	2,964,070	2,502,562
Power generated as percentage of LTA	98%	100%	95%
<b>STATEMENT OF EARNINGS</b>			
Revenues	246,869	241,834	198,259
Adjusted EBITDA	183,738	179,562	148,916
Adjusted EBITDA Margin	74.4%	74.3%	75.1%
Net (loss) earnings	(48,383)	(84,378)	45,431
Net (loss) earnings attributable to owners of the parent	(30,301)	(54,853)	48,170
(\$ per common share - basic)	(0.37)	(0.63)	0.43
(\$ per common share - diluted)	(0.37)	(0.63)	0.43
Weighted average number of common shares (in 000s)	102,304	98,341	94,694
<b>STATEMENT OF FINANCIAL POSITION</b>			
Total assets	3,128,303	2,716,015	2,377,074
Current liabilities	185,170	202,035	106,051
Long-term debt	2,160,438	1,610,800	1,313,718
Other long-term liabilities	217,708	260,937	211,539
Liability portion of convertible debentures	93,430	80,018	79,831
Total non-current liabilities	2,471,576	1,951,755	1,605,088
Non-controlling interests	21,907	47,411	81,429
Equity attributable to owners	449,650	514,814	584,506
<b>DIVIDENDS</b>			
Dividend declared per Class A Preferred Share	1.25	1.25	1.25
Dividend declared per Class C Preferred Share <sup>1</sup>	1.4375	1.4375	1.5704
Dividend declared per common share	0.62	0.60	0.58
<b>PAYOUT RATIO</b>			
Dividends declared on common shares	63,646	59,549	54,967
Free Cash Flow <sup>2</sup>	74,386	67,744	58,982
Payout Ratio <sup>2</sup>	86%	88%	93%

1. The regular annual dividend is \$1.4375; the initial dividend in 2013 was higher to reflect dividends accrued since the closing date of the Series C Preferred Shares offering of December 11, 2012.

2. 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## Comparison between 2015, 2014 and 2013

For the year ended December 31, 2015, the increases in power generated, revenues and Adjusted EBITDA are attributable mainly to the full-year contribution of the SM-1 hydroelectric facility acquired in June 2014, the addition of the Tretheway Creek hydroelectric facility commissioned at the end of 2015 and above-average wind regimes.

The \$48.4 million net loss for the year ended December 31, 2015, compared with a \$84.4 million net loss for the same period last year, is attributable mainly to the recognition of an impairment expense of \$51.7 million (\$nil in 2014) by the Corporation in relation to some of its Prospective Projects and the smaller negative impact of derivative financial instruments, namely a \$119.6 million realized loss on derivative financial instruments partly offset by a \$81.4 million unrealized gain on derivative financial instruments, compared with a \$121.7 million unrealized loss and an \$8.4 million realized loss on derivative financial instruments in 2014.

The increase in total assets is due mainly to investments by the Corporation in ongoing construction costs of the Corporation's Boulder Creek and Upper Lillooet River, the Big Silver Creek and the Mesgi'g Ujju's'n Development Projects and the Tretheway Creek project commissioned in October 2015.

The increase in long-term debt is again attributable mainly to the addition of Development Projects-level debts partly offset by a reduction in the revolving credit term facility.

The increase in the liability portion of convertible debentures in 2015 is due to the fact that the Corporation issued \$100.0 million of new convertible debentures bearing interest at 4.25% while it redeemed or converted the outstanding principal amount of \$80.5 million of the convertible debentures bearing interest at 5.75%.

The decrease in equity attributable to owners and non-controlling interests is due mainly to the recognition of a net loss and the declaration of dividends on preferred and common shares in 2015, which was partially offset by the issuance of new common shares upon conversion, at the holders' request, of convertible debentures bearing interest at 5.75%.

The increase in Free Cash Flow, which is attributable mainly to an increase in Adjusted EBITDA, more than offset the increase in dividends resulting from the greater number of shares outstanding, yielding a lower Payout Ratio of 86%.

For the year ended December 31, 2014, the increases in power generated, revenues and Adjusted EBITDA are attributable mainly to the full-year contribution of the Magpie hydroelectric facility acquired in July 2013, the addition of the Kwoiek Creek and Northwest Stave River hydroelectric facilities commissioned at the end of 2013 and the addition of the SM-1 hydroelectric facility acquired in June 2014. The change from net earnings of \$45.4 million to a net loss of \$84.4 million is due mainly to a \$121.7 million unrealized net loss on derivative financial instruments compared with an unrealized net gain of \$45.2 million in 2013, which resulted from an increase in benchmark interest rates during the year. The increase in long-term debt is attributable mainly to drawings under the revolving term credit facility to fund construction costs of the Corporation's five Development Projects and to the addition of the SM-1 and Tretheway Creek project-level debts. The decrease in equity attributable to owners and non-controlling interests is due mainly to the recognition of a net loss and the declaration of dividends on preferred and common shares in 2014. The increase in Free Cash Flow, which is attributable mainly to an increase in Adjusted EBITDA, more than offset the increase in dividends resulting from the greater number of shares outstanding, yielding a lower Payout Ratio of 88%.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Impact on net (loss) earnings of the realized loss, the unrealized net (gain) loss on derivative financial instruments and the impairment of project development costs	Year ended December 31		
	2015	2014	2013
Net (loss) earnings	(48,383)	(84,378)	45,431
<i>Add (Subtract):</i>			
Unrealized net (gain) loss on derivative financial instruments	(81,368)	121,685	(45,249)
Realized loss on derivative financial instruments	119,557	8,366	3,259
Impairment of project development costs	51,719	—	—
(Recovery of) income tax expense related to above items	(22,837)	(32,096)	11,127
Share of unrealized net loss (gain) on derivative financial instruments of joint ventures, net of related income tax	1,043	2,804	(1,951)
	19,731	16,381	12,617

Excluding the unrealized net gain or loss on derivative financial instruments, the realized loss on derivative financial instruments, the impairment of project development costs and the related income taxes, the net earnings for the year ended December 31, 2015 would have been \$19.7 million, compared with net earnings of \$16.4 million and of \$12.6 million in 2014 and 2013 respectively.

## COMMISSIONING ACTIVITIES

The Corporation reviewed the total project costs anticipated to achieve the completion of the Tretheway Creek project. Savings of \$8 million has been realized over the previously estimated total project costs.

	Ownership %	Gross installed capacity (MW)	Gross estimated LTA <sup>1</sup> (GWh)	PPA term (years)	Total project costs		Expected year-one	
					Estimated <sup>1</sup> (\$M)	As at Dec. 31 (\$M)	Revenues <sup>1</sup> (\$M)	Adjusted EBITDA <sup>1</sup> (\$M)
<i>HYDRO (British Columbia)</i>								
Tretheway Creek	100.0	21.2	81.0	40	103.5	101.3	8.7	7.2

1. This information is intended to inform readers of the projects' potential impact on the Corporation's results. Actual results may vary.

### Tretheway Creek

The construction of this hydroelectric facility began in October 2013. Construction and commissioning activities were completed ahead of time. The costs of the Tretheway Creek project are reviewed downward by an amount of \$8.0 million and are currently estimated at \$103.5 million (compared with \$111.5 million in 2014). The estimate of the total project costs was revised mainly to take into consideration a reduction in the unused contingencies on the construction costs.

The facility began commercial operations with an effective commissioning date of October 27, 2015. Tretheway Creek's average annual production is estimated to reach 81,000 MWh, enough to power more than 7,300 BC households. In its first full year of operation, it is expected to generate revenues and Adjusted EBITDA of approximately \$8.7 million and \$7.2 million respectively (compared with \$9.0 million and \$7.5 million in 2014). The \$0.3 million reduction in these estimates compared with prior guidance reflects a lower inflation rate in adjusting the expected selling price for electricity. All of the electricity the facility produces is covered by a 40-year fixed-price power purchase agreement with BC Hydro, which was obtained under that province's 2008 Clean Power Call Request for Proposals and which provides for an annual adjustment to the selling price based on a portion of the Consumer Price Index.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## DEVELOPMENTS IN 2015

### Closing of the Project Financing for the Boulder Creek and Upper Lillooet River Projects

On March 17, 2015, the Corporation announced the closing of a \$491.6 million non-recourse construction and term project financing for the Boulder Creek and Upper Lillooet River run-of-river hydroelectric projects located in British Columbia. The loan comprises three facilities or tranches:

- A \$191.6 million construction loan carrying a fixed interest rate of 4.22%; following the start of the facilities' commercial operation, it will convert into a 25-year term loan and the principal will be amortized over a 20-year period starting in the sixth year;
- A \$250 million construction loan carrying a fixed interest rate of 4.46%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and the principal will begin to be amortized upon maturity of the 25-year term loan;
- A \$50 million construction loan carrying a fixed interest rate of 4.46%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and its principal will be reimbursed at maturity.

The financing was arranged by The Manufacturers Life Insurance Company as agent and lead lender with the Caisse de Dépôt et placement du Québec and The Canada Life Assurance Company 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 closing of the financing in order to protect the expected returns on the projects, giving rise to a \$68.0 million realized loss on derivative financial instruments. This is equivalent to a fixed interest rate of approximately 5.66% on the loans and is well within the parameters of the economic model for this project. Please refer to the "Financial Position" section for more information.

### Renewal of Normal Course Issuer Bid

On March 19, 2015, the Corporation announced it was renewing its normal course issuer bid ("NCIB"), which enables it to purchase for cancellation up to 1 million (or approximately 1.0%) of its issued and outstanding common shares between March 24, 2015, and March 23, 2016.

### Saik'uz First Nation ("Saik'uz") and the Corporation sign a 50-50 partnership to develop a wind energy project in British Columbia

On April 17, 2015, Saik'uz and the Corporation announced the signing of an agreement to jointly develop a prospective wind energy project at Nulki Hills near Vanderhoof, British Columbia. The Corporation and Saik'uz have agreed on the commercial terms for a 50-50 partnership to develop the proposed Nulki Hills prospective wind project, representing up to 210 MW of clean renewable power.

### Closing of the Project Financing for the Big Silver Creek Project

On June 22, 2015, the Corporation announced the closing of a \$197.2 million non-recourse construction and term project financing for the Big Silver Creek run-of-river hydroelectric project located in British Columbia. The loan comprises three facilities or tranches:

- A \$51.0 million construction loan carrying a fixed interest rate of 4.56%; following the start of the facility's commercial operation, it will convert into a 25-year term loan and the principal will be amortized over a 18-year period starting in the seventh year;
- A \$128.3 million construction loan carrying a fixed interest rate of 4.76%; following the start of the facility's commercial operation, it will convert into a 40-year term loan and the principal will begin to be amortized upon maturity of the 25-year term loan;
- A \$17.9 million construction loan carrying a fixed interest rate of 4.76%; following the start of the facility's commercial operation, it will convert into a 40-year term loan and its principal will be reimbursed at maturity.

The financing was arranged by The Manufacturers Life Insurance Company as agent and lead lender with the Caisse de Dépôt et placement du Québec as lender.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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Concurrent with the closing of the financing, the Corporation settled the bond forward contracts used to hedge the interest rate prior to the closing of the financing in order to protect the expected returns on the projects, giving rise to a \$24.7 million realized loss on derivative financial instruments. This is equivalent to a fixed interest rate of approximately 5.75% on the loans and is well within the parameters of the economic model for this project. Please refer to the "Financial Position" section for more information.

## **Revolving Term Credit Facility Decreased as Planned**

On June 30, 2015, the Corporation's revolving term credit facility went from \$475 million back to \$425 million as per the terms of the amending agreement executed on November 6, 2014, to temporarily increase the facility in order to provide greater financing flexibility until such time as the Corporation closed the project-level financings that remained to be put in place.

## **Issuance of \$100.0 million of convertible debentures bearing interest at 4.25% and redemption or conversion of \$79.6 million of convertible debentures bearing interest at 5.75%**

On July 20, 2015, the Corporation entered into a bought deal agreement for the issuance of \$100.0 million in convertible unsecured subordinated debentures bearing interest at a rate of 4.25% and issued a notice of redemption to the holders of its outstanding convertible unsecured subordinated debentures bearing interest at rate of 5.75% and maturing on April 30, 2017.

The \$100.0 million offering of convertible debentures bearing interest at 4.25% was completed on August 10, 2015. The debentures are convertible at the holder's option into Innergex common shares at a conversion price of \$15.00 per share, representing a conversion rate of 66.6667 common shares per \$1,000 principal amount of debentures. They will mature on August 31, 2020, and will not be redeemable before August 31, 2018, except in certain limited circumstances. The debentures are traded on the Toronto Stock Exchange under the symbol "INE.DB.A". The net proceeds of the offering were used to reduce drawings under the revolving term credit facility; the funds available under this facility were used to redeem the debentures described below and can be drawn, when required, to fund future acquisitions, development projects and general corporate purposes.

The redemption or conversion of the outstanding principal amount of \$79.6 million of the convertible debentures bearing interest at 5.75% was completed on August 20, 2015. Of that principal amount, \$38.0 million was converted at the holders' request into 3,566,851 Innergex common shares at a conversion price of \$10.65 per share. The remaining \$41.6 million was redeemed at a price of \$1,000 per debenture, plus accrued and unpaid interest up to August 19, 2015, inclusively and was financed with drawings under the Corporation's revolving term credit facility.

## **Amendment of the Normal Course Issuer Bid and implementation of an automatic purchase plan**

Effective September 4, 2015, the Corporation's normal course issuer bid was amended in order to increase the maximum number of shares that may be repurchased and to implement an automatic purchase plan. The bid commenced on March 24, 2015 and will terminate on March 23, 2016. The maximum number of common shares that the Corporation may purchase for cancellation has increased from 1,000,000, or approximately 1%, to 2,000,000, or approximately 2%, of its issued and outstanding common shares. No other terms of the bid were amended.

In addition, the Corporation has entered into an automatic purchase plan agreement with a designated broker to allow for purchases of its common shares during times when it would ordinarily not be permitted to do so due to self-imposed blackout periods or regulatory restrictions.

As at December 31, 2015, the Corporation had purchased for cancellation 1,190,173 common shares at an average price of \$10.36.

## **Closing of the Project Financing for the Mesgi'g Uguj's'n Project**

On September 28, 2015, the Corporation and its partner announced the closing of a \$311.7 million non-recourse construction and term project financing for the Mesgi'g Uguj's'n wind project located in Quebec. The financing comprises three facilities or tranches:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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- A \$49.2 million floating-rate construction loan carrying a swap-fixed interest rate of 2.41%; following the start of the wind farm's commercial operation, it will be repaid with the proceeds of the scheduled reimbursement by Hydro-Québec for the Mesgi'g Ugnu's'n electrical substation;
- A \$103.0 million floating-rate construction loan carrying a swap-fixed interest rate of 3.54%; following the start of the wind farm's commercial operation, it will convert into a 9.5-year term loan and the principal will be amortized over the term of the loan;
- A \$159.5 million construction loan carrying a fixed interest rate of 4.28%; following the start of the wind farm's commercial operation, it will convert into a 19.5-year term loan and the principal will begin to be amortized upon maturity of the 9.5-year term loan.

The financing was arranged and underwritten by National Bank Financial Markets, as co-lead arranger and sole book runner, and SunLife Assurance Company of Canada, as co-lead arranger.

Concurrent with the closing of the financing, the Corporation settled the bond forward contracts used to hedge the interest rate prior to the closing of the financing in order to protect the expected returns on the projects, giving rise to a \$27.0 million realized loss on derivative financial instruments. This is equivalent to a fixed interest rate of approximately 4.97% on the loans and is well within the parameters of the economic model for this project. Please refer to the "Financial Position" section for more information.

## **Signing of a Memorandum of Understanding with the Federal Electricity Commission of Mexico**

On October 13, 2015, the Corporation signed a memorandum of understanding with the Comisión Federal de Electricidad ("CFE") to jointly study a number of renewable energy project opportunities in Mexico with the aim of jointly developing selected projects. The main purpose of this agreement is to coordinate efforts and develop activities that will allow the Corporation and CFE to define their joint participation in the development of prospective renewable energy projects, in particular small hydroelectric plants of less than 200 MW.

## **Potential Acquisition of the Walden Hydroelectric Project**

On December 15, 2015, the Corporation and the Cayoose Creek Band announced the signature of an agreement for the joint acquisition of the Walden North Hydroelectric project near Lillooet, British Columbia. The Corporation and Cayoose Creek Development Corp., the economic arm of Cayoose Creek Band, have formed a limited partnership to jointly acquire the assets of the Walden project from FortisBC for \$9.2 million. The closing of the acquisition is subject to customary conditions, and set to be completed in the first quarter of 2016. The Walden North Hydroelectric project is a 16 MW facility located on private land in Cayoosh Creek near Lillooet, British Columbia.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## DEVELOPMENT PROJECTS

The Corporation reviewed the total project costs anticipated to achieve the completion of the Development Projects. Savings of \$28.0 million is expected over the previously estimated total project costs.

PROJECTS UNDER CONSTRUCTION	Ownership %	Gross installed capacity (MW)	Expected COD <sup>1</sup>	Gross estimated LTA <sup>2,3</sup> (GWh)	PPA term (years)	Total project costs		Expected year-one		
						Estimated <sup>2</sup> (\$M)	As at Dec. 31 (\$M)	Revenues <sup>2</sup> (\$M)	Adjusted EBITDA <sup>2</sup> (\$M)	
<i>HYDRO (British Columbia)</i>										
Upper Lilloet River	66.7	81.4	2017 <sup>5</sup>	334.0	40	327.1 <sup>4</sup>	213.6 <sup>4</sup>	33.0 <sup>4</sup>	27.5 <sup>4</sup>	
Boulder Creek	66.7	25.3	2017 <sup>5</sup>	92.5	40	124.1 <sup>4</sup>	68.6 <sup>4</sup>	9.0 <sup>4</sup>	7.5 <sup>4</sup>	
Big Silver Creek	100.0	40.6	2016	139.8	40	206.0	178.1	18.0	15.0	
<i>WIND (Quebec)</i>										
Mesgi'g Ugnu's'n	50.0	150.0	2016	515.0	20	305.0 <sup>4</sup>	94.8 <sup>4</sup>	55.0 <sup>4</sup>	48.0 <sup>4</sup>	
		297.3		1081.3		962.2	555.1	115.0	98.0	

1. Commercial operation date.

2. This information is intended to inform readers of the projects' potential impact on the Corporation's results. Actual results may vary. These estimates are up-to-date as at the date of the MD&A.

3. Upon commissioning, LTA figures may be updated to reflect design optimization or constraints or selection of different turbines. Please refer to the "Forward-Looking Information" section for more information.

4. Corresponding to 100% of this facility.

5. The COD should be achieved in the first quarter of 2017 for the Upper Lilloet hydroelectric project and in the second quarter of 2017 for the Boulder Creek hydroelectric project. Commercial operation is delayed due to the forest fire that forced the interruption of construction activities. BC Hydro accepted that the fire constitutes a Force Majeure event and consequently confirmed that the COD could be delayed up to 98 Force Majeure days. If financial consequences nonetheless result from the forest fire, the Upper Lilloet River and Boulder Creek projects expect to be indemnified for such delays by virtue of their insurance coverage.

### Upper Lilloet River and Boulder Creek (the "Upper Lilloet Hydro Project" or "ULHP")

The construction of the Upper Lilloet River and Boulder Creek hydroelectric facilities began in October 2013. On March 17, 2015, the Corporation announced the closing of a \$491.6 million non-recourse construction and term project financing for both these projects.

Construction activities have resumed after being halted for two months due to a forest fire that swept through the area on July 4. Damage to the project site from the fire was very limited and all structures and equipment remained intact, except for a portion of the transmission line between the two powerhouses. As at the date of this MD&A, the installation of the joint transmission line, the powerhouses, the intakes and the tunnels are well under way. Both generators for the Boulder facility were delivered in mid-December and stored in the powerhouse. The Corporation and its contractors are working throughout the winter, focusing mainly on the tunnels to make up for some of the time lost to the forest fire. On December 23, BC Hydro notified the ULHP that it accepted a claim for Force Majeure for the forest fire and confirmed that the commissioning date could be extended by 98 Force Majeure days. The insurance claims process is ongoing and will take time to complete. In any case, the Corporation expects to be indemnified and to suffer no significant adverse financial consequences from the forest fire.

The costs of the Upper Lilloet and Boulder Creek hydroelectric facilities were revised upward by \$17.0 million (\$12.1 million for the Upper Lilloet project and \$4.9 million for the Boulder Creek project). The total project costs for the Upper Lilloet facility are currently estimated at \$327.1 million (compared with \$315.0 million in 2014) while they are reassessed at \$124.1 million (at \$119.2 million in 2014) for the Boulder Creek facility. The estimates of the total project costs have been revised to take into account incremental costs associated with the geological conditions in the tunnels and additional interest expenses from the higher amount of project financing.

### Big Silver Creek

Construction of this hydroelectric facility began in June 2014. On June 22, 2015, the Corporation announced the closing of a \$197.2 million non-recourse construction and term project financing for this project. As at the date of this MD&A, the civil works for the intake, tunnel, penstock, powerhouse and tailrace have been completed. The majority of the turbines and generators have been delivered to site and their installation is under way. Transmission line construction continued for both the terrestrial line and the submarine cables. Procurement and delivery of the electrical equipment were under way.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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The costs of the Big Silver Creek project were revised downward by \$10.0 million and are currently estimated at \$206.0 million (compared with \$216.0 million in 2014). The estimates of the total project costs have been revised, mainly to take into account a reduction in the unused contingencies for the construction costs. Commercial operation is expected to begin in the third quarter of 2016.

## **Mesgi'g Ugnu's'n**

Construction of this wind farm began in May 2015. On September 28, 2015, the Corporation and its partner announced the closing of \$311.7 million non-recourse construction and term project financing for this project. As at the date of this MD&A, the access roads and wind turbines generator ("WTG") areas have been completed. All the WTG foundations have been completed but one, which will be backfilled in early spring 2016. The electrical works will not be completed during the winter but will resume in 2016, along with other activities. As planned, the other construction activities have been halted for the winter period and will also resume in the spring of 2016.

The cost of the Mesgi'g Ugnu's'n wind project is currently estimated at \$305.0 million (compared with \$340.0 million in 2014). The \$35.0 million reduction in the Corporation's estimated project costs reflects the lower cost of project financing and associated financial costs relative to the initial forecasts and the use of larger turbines, which incidentally reduces the number of turbines, equipment costs and civil engineering construction associated costs. The end of construction and the commissioning of the Mesgi'g Ugnu's'n wind farm is expected for the end of 2016.

## **PROSPECTIVE PROJECTS**

With a combined potential net installed capacity of 3,280 MW (gross 3,530 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 new wind and solar energy in Ontario. Other Prospective Projects will be available for future requests for proposals yet to be announced or are targeted toward negotiated power purchase agreements with public utilities or other creditworthy counterparties. There is no certainty that any Prospective Project will be realized.

## **OPERATING RESULTS**

Production of electricity for the year was 98% of the long-term average ("LTA") production due mainly to below-average water flows in all markets but above-average results for the wind and solar regimes.

Production increased 1%, revenues increased 2% and Adjusted EBITDA increased 2% in 2015. The increase in production and revenues is attributable mainly to the full-year contribution of the SM-1 hydroelectric facility acquired in June 2014 and the contribution of the wind sector partly offset by lower production in British Columbia.

The Corporation's operating results for the year ended December 31, 2015, are compared with the operating results for the same periods in 2014.

### **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 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Year ended December 31	2015				2014			
	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
<b>HYDRO</b>								
Quebec	696,065	699,930	99%	76.23	606,071	614,205	99%	75.97
Ontario	70,683	74,544	95%	68.24	84,333	74,544	113%	68.45
British Columbia	1,428,953	1,518,712	94%	78.28	1,509,737	1,513,591	100%	76.71
United States	42,675	46,800	91%	89.65	45,083	46,800	96%	75.38
Subtotal	2,238,376	2,339,986	96%	77.54	2,245,224	2,249,140	100%	76.17
<b>WIND</b>								
Quebec	709,712	676,489	105%	79.88	677,107	676,489	100%	79.71
<b>SOLAR</b>								
Ontario	39,549	38,167	104%	420.00	40,119	38,441	104%	420.00
<b>Total</b>	<b>2,987,637</b>	<b>3,054,642</b>	<b>98%</b>	<b>82.63</b>	<b>2,962,450</b>	<b>2,964,070</b>	<b>100%</b>	<b>81.64</b>

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 year ended December 31, 2015, the Corporation's facilities produced 2,988 GWh of electricity or 98% of the LTA of 3,055 GWh. Overall, the hydroelectric facilities produced 96% of their LTA, due mainly to below-average water flows in all markets. Overall, the wind farms produced 105% of their LTA, due mainly to above-average wind regimes. The Stardale solar farm produced 104% of its LTA, due mainly to above-average solar regimes. For more information on operating segment results, please refer to the "Segment Information" section.

The production increase of 1% compared with the same period last year is attributable to the full-year contribution of the SM-1 hydroelectric facility acquired in June 2014 and the better performance of the wind farms, partially offset by below-average water flows in Ontario, British Columbia and the United-States.

The overall performance of the Corporation's facilities for the year ended December 31, 2015, demonstrates the benefits of geographic diversification and the complementarity of hydroelectric, wind and solar power generation.

## Additional Information

### Power Purchase Agreements

The 34 Operating Facilities sell the generated power under long-term PPAs to rated public utilities or other creditworthy counterparties. For Operating Facilities in Quebec, Ontario and British Columbia, PPAs include 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, for which the price is based on a formula using the Platts Mid-C pricing indices (this facility accounted for 2% of revenues in 2015). For the Horseshoe Bend hydroelectric facility located in Idaho, USA, 85% of the price is fixed and 15% is adjusted annually as determined by the Idaho Public Utility Commission.

### Portneuf

In addition to revenue from the power generated at the three Portneuf facilities, the Corporation receives cash payments from Hydro-Québec to compensate for the partial diversion of the water flow that would have otherwise been available to the Corporation's plants. These payments are based on long-term average annual water flows over 20 years. Although these facilities are exempt from annual hydrological variations under the "virtual energy" provisions included in the long-term PPAs with Hydro-Québec, they must remain in operation in order to receive financial compensation. As such, the payments are contingent on turbine availability and maximum production with the water resources made available by Hydro-Québec.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Inflation Protection

Most of the Corporation's PPAs for Operating Facilities include a clause that adjusts for the effects of inflation:

- all PPAs for Quebec hydroelectric facilities except Magpie and the second PPA (22 MW) for SM-1 provide for an annual CPI-based power rate increase of between 3% and 6%;
- the PPA for the Magpie hydroelectric facility provides for an annual power rate increase of 1%;
- the second PPA (22 MW) for the SM-1 hydroelectric facility provides for an annual power rate increase of 2%;
- the PPAs for the Glen Miller and Umbata Falls hydroelectric facilities provide for an annual power rate adjustment based on 15% of the CPI;
- all PPAs for British Columbia hydroelectric facilities except Kwoiek Creek, Brown Lake and Miller Creek provide for an annual power rate adjustment based on 50% of the CPI; for the six facilities owned by Harrison Hydro Limited Partnership, this inflation protection is partly offset by the inflation component of the real-return bonds;
- the PPA for the Kwoiek Creek hydroelectric facility in British Columbia provides for an annual power rate adjustment based on 30% of the CPI;
- the PPA for the Brown Lake hydroelectric facility in British Columbia provides for an annual power rate increase of 3%;
- all PPAs for Quebec wind farms provide for an annual power rate adjustment based on approximately 20% of the CPI.

## Power Purchase Agreements Up for Renewal

The PPA for the 8.0 MW St-Paulin hydroelectric facility reached the end of its initial 20-year term in November 2014. The Corporation had sent Hydro-Québec a notice of automatic renewal of the PPA for an additional 20-year term. Following initial discussions, the Corporation and Hydro-Québec could not reach agreement on the renewal terms and conditions and the Corporation subsequently filed a notice of arbitration. The Corporation has agreed with Hydro-Québec to suspend its arbitration proceeding until a decision is made in another arbitration proceeding already under way between Hydro-Québec and other independent power producers. In the meantime, Hydro-Québec has agreed to maintain the terms and conditions of the St-Paulin PPA until 30 days following the decision in this other arbitration proceeding.

The PPA for the 5.5 MW Windsor hydroelectric facility reached the end of its initial 20-year term in January 2016 and the Corporation sent Hydro-Québec a notice of automatic renewal of the PPA for an additional 20-year term.

## Financial Results

	Year ended December 31			
	2015		2014	
Revenues	246,869	100.0%	241,834	100.0%
Operating expenses	40,938	16.6%	41,512	17.2%
General and administrative expenses	14,188	5.7%	15,064	6.2%
Prospective project expenses	8,005	3.2%	5,696	2.4%
Adjusted EBITDA	183,738	74.4%	179,562	74.3%
Finance costs	83,130		86,537	
Other net expenses	116,764		7,797	
Depreciation and amortization	75,478		74,092	
Impairment of project development costs	51,719		—	
Share of (earnings) loss of joint ventures (note 1)	(1,562)		701	
Unrealized net (gain) loss on derivative financial instruments	(81,368)		121,685	
Recovery of income tax expense	(12,040)		(26,872)	
Net loss	(48,383)		(84,378)	
Net loss attributable to:				
Owners of the parent	(30,301)		(54,853)	
Non-controlling interests	(18,082)		(29,525)	
	(48,383)		(84,378)	
Basic net loss per share (\$)	(0.37)		(0.63)	

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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## Revenues

For the year ended December 31, 2015, the Corporation recorded revenues of \$246.9 million, compared with \$241.8 million in 2014. This 2% increase is attributable mainly to the full-year contribution of the SM-1 hydroelectric facility acquired in June 2014 and the higher wind regimes in Quebec, partially offset by lower water flows in British Columbia.

## Expenses

*Operating expenses* consist primarily of the operators' salaries, insurance premiums, expenditures related to operation and maintenance, property taxes and royalties. For the year ended December 31, 2015, the Corporation recorded operating expenses of \$40.9 million (\$41.5 million in 2014). This 1% decrease is due mainly to variable costs associated with the lower production in British Columbia, reduced operating expenses in the United States and resources being devoted to prospective projects partly offset by the full-year operation of the SM-1 hydroelectric facility.

*General and administrative expenses* consist primarily of salaries, professional fees and office expenses. For the year ended December 31, 2015, general and administrative expenses totalled \$14.2 million (\$15.1 million in 2014). This 6% decrease stems mainly from resources being devoted to prospective project expenses following the Corporation's strategy to develop international markets.

*Prospective project expenses* include the costs incurred for the development of Prospective Projects. They result from the number of Prospective Projects that the Corporation has chosen to advance and the resources required to do so. For the year ended December 31, 2015, prospective project expenses totalled \$8.0 million (\$5.7 million in 2014). This 41% increase is related mainly to the advancement of a number of prospective projects, to pursuing opportunities in new international markets and to the current 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 year ended December 31, 2015, the Corporation recorded Adjusted EBITDA of \$183.7 million, compared with \$179.6 million for the same period last year. This 2% increase is due mainly to the increase in production and revenues explained above. As a result, the Adjusted EBITDA Margin rose from 74.3% to 74.4%.

## Finance Costs

Finance costs include interest on long-term debt and convertible debentures, inflation compensation interest, amortization of financing fees, accretion of long-term debt and convertible debentures, accretion expenses on other liabilities, and other finance costs. For the year ended December 31, 2015, finance costs totalled \$83.1 million (\$86.5 million in 2014). The decrease for the year is due mainly to the much lower inflation compensation interest on the real-return bonds (\$2.9 million compared with \$6.7 million in 2014), which more than offset the increase in interest expenses resulting from higher levels of debt. The decrease is partially offset by the full-year contribution of the SM-1 hydroelectric facility.

As at December 31, 2015, 99% of the Corporation's outstanding debt, including convertible debentures, was fixed or hedged against interest rate movements (91% as at December 31, 2014). The effective all-in interest rate on the Corporation's debt and convertible debentures was 5.12% as at December 31, 2015 (5.25% as at December 31, 2014). The decrease stems mainly from the full-year contribution of the SM-1 project debt, which bears a fixed interest rate of 3.30% following its adjustment to fair market value upon consolidation, the addition of the Tretheway Creek project debt, which bears a fixed interest rate of 4.99%, the addition of the Boulder Creek and Upper Lillooet River project debts, which bear a weighted average fixed interest rate of 4.36%, the addition of the Big Silver Creek project debt, which bears a weighted average fixed interest rate of 4.71% and the addition of the Mesgi'g Ugiu's'n project financing, which actually bears a fixed interest rate of 4.28%, partly offset by the full-year contribution of the debenture on the SM-1 facility, which bears a fixed interest rate of 8.00%.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## **Other Net Expenses**

Other net expenses include transaction costs, realized losses on derivative financial instruments, realized gain on contingent considerations, realized losses on foreign exchange, loan impairment and other net revenues. For the year ended December 31, 2015, the Corporation recorded other net expenses of \$116.8 million (\$7.8 million in 2014). The change for the year stems mainly from the \$119.6 million realized loss on derivative financial instruments resulting from the settlement of the Boulder Creek, Upper Lillooet River, Big Silver Creek and Mesgi'g Ugnu's'n bond forward contracts upon closing of the projects' financing. This change was partly offset by the recognition of a \$3.4 million realized gain on contingent considerations in relation to amounts payable on the future development of the prospective projects in British Columbia acquired from Cloudworks Energy Inc. in 2011, which prospective projects were impaired as at December 31, 2015.

## **Depreciation and Amortization**

For the year ended December 31, 2015, depreciation and amortization expenses totalled \$75.5 million (\$74.1 million in 2014). This increase is attributable mainly to the full-year contribution of the SM-1 hydroelectric facility acquired in June 2014 and the full-year amortization of an extended two-year warranty contracted for Phase II of the Gros-Morne wind farm.

## **Impairment of project development costs**

For the years ended December 31, 2015 and 2014, the Corporation conducted impairment tests on its project development costs. Based on the results of these tests, a \$51.7 million impairment charge was required in 2015 for projects for which uncertainties exist regarding the timing and profitability of any development. The impairment resulted in a \$13.6 million recovery of income taxes. For the year ended December 31, 2014, no impairment charge was required.

In 2011, full ownership of hydroelectric projects in British Columbia in various stages of development (with a potential aggregate installed capacity of over 800 MW) resulted from the acquisition of Cloudworks Energy Inc. Accordingly, an amount of \$51.7 million for Prospective Projects was recorded following the acquisition. However, as at December 31, 2015, BC Hydro's Site C (a mega hydroelectric station that should provide around 1,100 MW of capacity and produce about 5,100 GWh of electricity a year) is moving forward. Construction of the project started in summer 2015. Furthermore, in September 2015, the BC Supreme Court dismissed a petition seeking an order quashing the Environmental Assessment Certificate issued by the Minister of the Environment and the Minister of Forests, Lands and Natural Resource Operations for the project. In November 2015, BC Hydro and the BC Government announced the awarding of a \$1.5 billion construction contract for Site C. The odds of success on litigation led by First Nations and various environmental groups against Site C are fairly remote, as construction activities are in progress. BC Hydro publicly announced that based on their forecasts, it would likely be the early 2030s before the utility foresees the need for a significant block of new electricity from Independent Power Producers. Consequently, in the year ended on December 31, 2015, the Corporation recognized an impairment of \$51.7 million (\$nil in 2014), resulting in a recovery of income taxes of \$13.6 million, related to its BC Prospective Projects, for which it retains ownership of the licenses that it might develop in the future. Simultaneously, the contingent considerations related to these Prospective Projects were reversed resulting in a realized gain of \$3.4 million.

## **Share of (earnings) loss of joint ventures**

For the year ended December 31, 2015, the Corporation recorded a share of earnings of joint ventures of \$1.6 million (\$0.7 million share of loss of Joint Ventures in 2014). 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 and its exposure to the risk of rising foreign currencies on its equipment purchases ("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 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.

Since October 2014, the Corporation has used hedge accounting for new Derivatives and, since April 1, 2015, it has decided to use hedge accounting for its existing Derivatives used to fix the interest rate on the project-level debts (with the exception of Umbata Falls) and on most of its revolving term credit facility in order to reduce the fluctuations in net earnings or losses resulting from unrealized gains or losses on these Derivatives during a given period. Under hedge accounting, most of the unrealized gains or losses on Derivatives that arise from a decrease or increase in the benchmark interest rate will be recorded in other comprehensive income, while only the portion of the unrealized gain or loss related to the "ineffectiveness" and the settlement of the Derivatives will be recorded in net earnings.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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For the year ended December 31, 2015, the Corporation recognized an unrealized net gain on derivative financial instruments of \$81.4 million, due mainly to the reversal of the unrealized loss accrued upon settlement of the bond forward contracts concurrently with the closing of the Boulder Creek and Upper Lillooet River project financing of \$491.6 million in March, the Big Silver Creek project financing of \$197.2 million in June and the Mesgi'g Ugju's'n project financing of \$311.7 million in September. For the corresponding period last year, the Corporation recognized an unrealized net loss on derivative financial instruments of \$121.7 million, due mainly to the decrease in benchmark interest rates since December 31, 2013.

In March 2015, the Corporation announced the closing of a \$491.6 million financing and concurrently settled the corresponding bond forward contracts for the Boulder Creek and Upper Lillooet River hydroelectric projects; in June 2015, it announced the closing of a \$197.2 million financing and concurrently settled the corresponding bond forward contracts for the Big Silver Creek hydroelectric project; and in September 2015, it announced the closing of a \$311.7 million financing and concurrently settled the corresponding bond forward contracts for the Mesgi'g Ugju's'n wind project. For the year ended December 31, 2015, these bond forward contract settlements resulted in a realized loss of \$119.6 million (in 2014 a realized loss of \$8.4 million following the closing of the Tretheway Creek project financing). As at December 31, 2015, the Corporation had no Derivatives to be settled upon the closing of a project financing since all financings were put in place in 2015.

## **Income Tax Expense (Recovery)**

For the year ended December 31, 2015, the Corporation recorded a current income tax expense of \$3.1 million (\$3.0 million in 2014) and a deferred income tax recovery of \$15.2 million (\$29.9 million in 2014). The deferred income tax recovery is due in part to the recognition of an accounting loss before income taxes resulting from the \$119.6 million realized loss resulting from the settlement of Derivatives and the recognition by the Corporation of an impairment of \$51.7 million related to its British Columbia Prospective Projects, partly offset by the \$81.4 million reversal of unrealized gain accrued upon settlement of Derivatives. The deferred tax recovery for the same period last year is due mainly to an unrealized net loss on Derivatives.

## **Net Loss**

For the year ended December 31, 2015, the Corporation recorded a net loss of \$48.4 million (basic and diluted net loss of \$0.37 per share), compared with a net loss of \$84.4 million (basic and diluted net loss of \$0.63 per share) in 2014. This is attributable mainly to a \$51.7 million impairment of project development costs and a smaller negative impact of Derivatives, namely a \$119.6 million realized loss on derivative financial instruments partly offset by a \$81.4 million unrealized gain on derivative financial instruments, compared with a \$8.4 million realized loss and a \$121.7 million unrealized loss on derivative financial instruments last year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Main items explaining the change in a net loss for the year ended December 31, 2015, compared with the net loss for the corresponding period in 2014

Main items – Positive impact	Change	Explanation
Unrealized net (gain) loss on derivative financial instruments	203,053	Due mainly to the reversal of unrealized losses upon settlement of the Boulder Creek, Upper Lillooet River, Big Silver Creek and Mesgi'g Ugju's'n bond forward contracts, compared with an unrealized net loss on derivative financial instruments resulting from a decrease in benchmark interest rates for 2014.
Revenues	5,035	Due mainly to the full-year contribution of the SM-1 hydroelectric facility acquired in June 2014 and the higher wind regimes in Quebec, partially offset by lower water flows in British Columbia.
Main items – Negative impact	Change	Explanation
Other net expenses	108,967	Due mainly to a realized net loss on derivative financial instruments of \$119.6 million resulting from the settlement of the Boulder Creek, Upper Lillooet River, Big Silver Creek and Mesgi'g Ugju's'n bond forwards upon closing of the project financings, compared with a realized loss of \$8.4 million due to the settlement of the Tretheway bond forward in 2014.
Impairment of project development costs	51,719	Due to an impairment following the low probability of being able to develop the British Columbia hydroelectric prospective projects acquired in 2011.
Deferred recovery of income tax	14,724	Due mainly to a smaller recovery of income tax on a smaller accounting loss resulting from a realized net loss on derivative financial instruments and an impairment expense on prospective projects partly offset by an unrealized gain on derivative financial instruments, as mentioned above compared with a more significant unrealized loss on derivative financial instruments in 2014.

## 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 year ended December 31, 2015, the Corporation allocated a loss of \$18.1 million to non-controlling interests (compared with a loss of \$29.5 million in 2014). Please refer to the "Non-Wholly Owned Subsidiaries" section for more information.

## Number of Common Shares Outstanding

Weighted average number of common shares outstanding (000s)	Year ended December 31	
	2015	2014
Weighted average number of common shares	102,304	98,341
Effect of dilutive elements on common shares <sup>1</sup>	283	210
Diluted weighted average number of common shares	102,587	98,551

1. Stock options for which the exercise price was above the average market price of common shares were excluded from the calculation of diluted weighted average number of shares outstanding. For the year ended December 31, 2015, 2,579,684 of the 3,425,684 stock options (1,830,684 of the 3,470,684 in 2014) were dilutive. During the year ended December 31, 2015, none of the 6,666,667 shares that can be issued on conversion of convertible debentures were dilutive (none of the 7,558,684 shares were dilutive in 2014).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## The Corporation's Equity Securities

As at	February 24, 2016	December 31, 2015	December 31, 2014
Number of common shares	104,006,805	103,938,636	100,672,000
Number of 4.25% convertible debentures	100,000	100,000	—
Number of 5.75% convertible debentures	—	—	80,500
Number of Series A Preferred Shares	3,400,000	3,400,000	3,400,000
Number of Series C Preferred Shares	2,000,000	2,000,000	2,000,000
Number of stock options outstanding	3,425,684	3,425,684	3,470,684

As at the date of this MD&A, the increase in the number of common shares since December 31, 2015, is attributable to the issuance of shares under the Corporation's Dividend Reinvestment Plan ("DRIP").

The increase in the number of common shares since December 31, 2014, is attributable mainly to the conversion, at the holders' request, of a portion of the 5.75% convertible debentures as well as to the DRIP, partly offset by the purchase and cancellation of 1,190,173 shares under the Corporation's normal course issuer bid. The variation in the number of convertible debentures during the year is due to the issuance of 100,000 convertible debentures bearing interest at a rate of 4.25% and the redemption or conversion of 80,500 convertible debentures bearing interest at a rate of 5.75%.

## LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2015, the Corporation generated cash flows from operating activities of \$4.6 million, compared with generating \$87.7 million for the same period last year. During the year 2015, the Corporation generated funds from financing activities of \$535.7 million and used funds for investing activities of \$554.8 million, mainly to pay for the construction of its Development Projects. As at December 31, 2015, the Corporation had cash and cash equivalents amounting to \$40.7 million, compared with \$54.6 million as at December 31, 2014.

### Cash Flows from Operating Activities

For the year ended December 31, 2015, cash flows generated by operating activities totalled \$4.6 million (\$87.7 million generated in 2014). The change is attributable mainly to the \$119.6 million realized loss on derivative financial instruments, which more than offset the increase in revenues. This loss was financed from the project-level debts raised during the year.

### Cash Flows from Financing Activities

For the year ended December 31, 2015, cash flows generated by financing activities totalled \$535.7 million (\$201.0 million generated in 2014). The cash-flows from the financing activities are attributable mainly to a \$563.0 million net increase in long-term debt reflecting mainly the addition of the Development Projects-level debts and the repayment of long-term debt (including the revolving term credit facility) and to net proceeds of \$95.5 million from the issuance of convertible debentures bearing interest at 4.25% partly offset by the \$41.6 million redemption of outstanding convertible debentures bearing interest at 5.75% and by the \$12.3 million purchase for cancellation of common shares under the Corporation's normal course issuer bid.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Use of Financing Proceeds	Year ended December 31	
	2015	2014
Proceeds from issuance of long-term debt	1,241,951	379,901
Repayment of long-term debt (including revolving term credit facility)	(665,085)	(120,590)
Payment of deferred financing costs	(13,842)	(2,580)
Sub-total: net increase in long-term debt	563,024	256,731
Net proceeds from issuance of convertible debentures	95,527	—
Proceeds from exercise of share options	394	—
Generation of financing proceeds	658,945	256,731
Payment of redemption of convertible debentures	(41,591)	—
Payment of buyback of common shares	(12,349)	—
Payment of other liabilities	(244)	(361)
Payment of issuance cost of common and preferred shares	—	(82)
Business acquisitions	—	(38,368)
Realized loss on derivative financial instruments	(119,557)	(8,366)
(Increase) in restricted cash and short-term investments	(226,913)	(36,062)
Net funds (invested into) withdrawn from the reserve accounts	(1,336)	6,538
Additions to property, plant and equipment	(296,153)	(205,460)
Additions to project development costs	(29,107)	(24,955)
Withdrawals from joint ventures	—	2,259
(Additions to) reductions of other long-term assets	(1,324)	27,480
Net use of financing proceeds	(728,574)	(277,377)
Reduction in working capital	(69,629)	(20,646)

During the year ended December 31, 2015, the Corporation borrowed \$1,242.0 million mainly to pay for construction of the Development Projects, the reduction in drawings under the revolving term credit facility and the \$119.6 million realized loss on derivative financial instruments resulting from the settlement of the Boulder Creek, Upper Lillooet River, Big Silver Creek and Mesgi'g Ugnu's'n bond forward contracts. It also increased restricted cash by \$226.9 million, as the use of cash to pay for construction costs related to the Development Projects was more than offset by the addition of proceeds received from these projects' debts. During the corresponding period of 2014, the Corporation borrowed \$379.9 million to pay for the construction of the Tretheway Creek, Boulder Creek, Upper Lillooet River and Big Silver Creek projects, for the pre-construction development of the Mesgi'g Ugnu's'n project and for the acquisition of the SM-1 hydroelectric facility and to repay long-term debt; it also increased restricted cash by \$36.1 million, as use of cash to pay for construction costs related to the Kwoiek Creek and Northwest Stave River facilities was more than offset by the addition \$49.1 million corresponding to the unused proceeds from the Tretheway Creek project financing.

## Cash Flows from Investing Activities

For the year ended December 31, 2015, cash flows used by investing activities amounted to \$554.8 million (\$268.4 million in 2014). During this period, additions to property, plant and equipment accounted for a \$296.2 million outflow (\$205.5 million outflow in 2014), an increase in restricted cash and short-term investments accounted for a \$226.9 million outflow (\$36.1 million outflow in 2014), additions to project development costs accounted for a \$29.1 million outflow (\$25.0 million outflow in 2014) and investments in reserve accounts accounted for a \$1.3 million outflow (\$6.5 million inflow in 2014). For the year ended December 31, 2014, these items were partly offset by a decrease in other long-term assets, which accounted for a \$27.5 million inflow due mainly to the reimbursement of a loan by the seller of the SM-1 hydroelectric facility.

## Cash and Cash Equivalents

For the year ended December 31, 2015, cash and cash equivalents decreased by \$13.9 million (increased by \$20.3 million in 2014) as a net result of its operating, financing and investing activities. As at December 31, 2015, the Corporation had cash and cash equivalents amounting to \$40.7 million (\$54.6 million as at December 31, 2014).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## DIVIDENDS

The following dividends were declared by the Corporation:

	Year ended December 31	
	2015	2014
Dividends declared on common shares <sup>1</sup>	63,646	59,549
Dividends declared on common shares (\$/share) <sup>1</sup>	0.62	0.60
Dividends declared on Series A Preferred Shares	4,250	4,250
Dividends declared on Series A Preferred Shares (\$/share)	1.25	1.25
Dividends declared on Series C Preferred Shares	2,875	2,875
Dividends declared on Series C Preferred Shares (\$/share)	1.4375	1.4375

1. On February 24, 2015, the Board of Directors increased the annual dividend from \$0.60 to \$0.62 per common share, payable quarterly. The increase in dividends declared on common shares is also attributable to the issuance of 4,027,051 new common shares to pay for the acquisition of the SM-1 hydroelectric facility and the issuance of 3,653,422 new common shares upon conversion, at the holders' request, of convertible debentures bearing interest at 5.75%.

The following dividends will be paid by the Corporation on April 15, 2016:

Date of announcement	Record date	Payment date	Dividend per common share (\$)	Dividend per Series A Preferred Share (\$) <sup>1</sup>	Dividend per Series C Preferred Share (\$)
02/24/2016	3/31/2016	4/15/2016	0.16	0.2255	0.359375

1. On January 15, 2016 and on January 15 every five years thereafter, the holders of Preferred Shares, Series A (the "Series A Shares") have the right, at their option, to convert all or part of their Series A Shares into Series B, Preferred Shares (the "Series B Shares") of the Corporation, if certain conditions are met. After considering all election notices received by the conversion deadline of December 31, 2015 and the conversion requirements for , the holders of the Series A Shares were not entitled to convert their shares. Accordingly, 3,400,000 Series A Shares remain listed on the Toronto Stock Exchange (TSX) under the symbol INE.PR.A. The dividend rate for the five-year period commencing on January 15, 2016, and extending to but excluding January 15, 2021, will be 3.608% or \$0.2255 per share per quarter.

On February 24, 2016, the Board of Directors increased the annual dividend that the Corporation intends to distribute from \$0.62 to \$0.64 per common share, payable quarterly.

## FINANCIAL POSITION

As at December 31, 2015, the Corporation had \$3,128 million in total assets, \$2,657 million in total liabilities, including \$2,215 million in long-term debt, and \$471.6 million in shareholders' equity.

Also as at December 31, 2015, the Corporation had a working capital ratio of 2.15:1.00 (0.91:1.00 as at December 31, 2014). In addition to cash and cash equivalents amounting to \$40.7 million, the Corporation had restricted cash and short-term investments of \$312.7 million and reserve accounts of \$42.8 million.

The explanations below highlight the most significant changes in statement of financial position items during the year ended December 31, 2015.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## Assets

### Highlights of significant changes in total assets during the year ended December 31, 2015

- A \$213.0 million net increase in cash and cash equivalents and restricted cash and short-term investments, due mainly to the addition of a portion or all of the financing received from the Boulder Creek, Upper Lillooet River, Big Silver Creek and Mesgi'g Ugju's'n project-level debts, which more than offset the amounts drawn to pay for construction of the Development Projects and the Tretheway Creek facility;
- A \$278.4 million increase in property, plant and equipment, due mainly to construction of the Tretheway, Boulder Creek, Upper Lillooet River and Big Silver Creek projects and to the transfer of the Mesgi'g Ugju's'n project into property, plant and equipment, partly offset by the depreciation for the year and by a \$6.6 million subsequent adjustment pertaining to purchase price allocation for the SM-1 hydroelectric facility out of property, plant and equipment and into intangible assets;
- A \$15.0 million decrease in intangible assets, due mainly to amortization for the year, partly offset by a \$6.6 million subsequent adjustment pertaining to purchase price allocation for the SM-1 hydroelectric facility into intangible assets from property, plant and equipment; and
- A \$61.0 million decrease in project development costs, due mainly to the transfer of the Mesgi'g Ugju's'n project from project development costs and into property, plant and equipment since construction began in May and to the \$51.7 million impairment amount recognized by the Corporation in relation to project development costs recorded following the Cloudworks Energy Inc. acquisition in 2011.

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## Working Capital Items

Working capital was positive at \$212.2 million, as at December 31, 2015, with a working capital ratio of 2.15:1.00. As at December 31, 2014, working capital was negative at \$17.4 million with a working capital ratio of 0.91:1.00. The increase in the working capital ratio over fiscal 2015 is due mainly to a \$226.9 million increase in restricted cash and short-term investments and a \$88.8 million decrease in the current liability portion of derivative financial instruments, which are explained separately below. These items were partly offset by a \$49.9 million increase in accounts payable and a \$21.2 million increase in current portion of long-term debt, 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 December 31, 2015, the Corporation had drawn \$129.9 million and US\$13.9 million as cash advances, while \$95.5 million had been used for issuing letters of credit.

*Restricted cash and short-term investments* amounted to \$312.7 million as at December 31, 2015, of which \$6.8 million was related to the Harrison Hydro L.P., \$0.7 million to the Kwoiek Creek loan, \$0.4 million to the Northwest Stave River loan, \$20.6 million to the Tretheway Creek loan, \$177.7 million to the Boulder Creek and Upper Lillooet River loan, \$11.2 million to the Big Silver Creek loan and \$95.3 million to the Mesgi'g Ugju's'n loan (compared with \$85.8 million as at December 31, 2014, of which \$6.7 million was related to the Harrison Hydro L.P., \$23.5 million to the Kwoiek Creek loan, \$6.5 million to the Northwest Stave River loan and \$49.1 million to the Tretheway Creek loan). The increase stems mainly from the addition of a portion or all of the financing from the Boulder Creek, Upper Lillooet River, Big Silver Creek and the Mesgi'g Ugju's'n loans, which more than offset the amounts drawn to pay for construction of the Development Projects. The remainder of the Boulder Creek, Upper Lillooet River and the Mesgi'g Ugju's'n loans will be received in monthly installments.

*Accounts receivable* increased from \$35.3 million as at December 31, 2014, to \$37.1 million as at December 31, 2015, due mainly to commodity taxes receivable from the construction of the Development Projects.

*Accounts payable and other payables* increased from \$45.6 million as at December 31, 2014, to \$95.5 million as at December 31, 2015, due mainly to construction activities related to the Development Projects.

*Derivative financial instruments included in current liabilities* decreased from \$104.1 million as at December 31, 2014, to \$15.3 million as at December 31, 2015, due mainly to the settlement in bond forward contracts entered into to hedge the interest rate on future project-level financing for the Development Projects following the close of the Boulder Creek, Upper Lillooet River, Big Silver Creek and Mesgi'g Ugju's'n project financings.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## **Reserve Accounts**

Reserve accounts consist of a hydrology/wind reserve, established at the start of commercial operation 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 \$41.5 million in long-term reserve accounts as at December 31, 2015, compared with \$40.7 million as at December 31, 2014. The increase stems mainly from the reserves for the Kwoiek Creek facility put in place in 2015.

The availability of funds in the hydrology/wind and major maintenance reserve accounts are in large part restricted by credit agreements.

## **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, if any. The Corporation had \$2,174 million in property, plant and equipment as at December 31, 2015, compared with \$1,896 million as at December 31, 2014. The increase stems mainly from the construction of the Development Projects and to the transfer of the Mesgi'g Ugnu's'n project into property, plant and equipment, partly offset by the depreciation for the year and by a \$6.6 million subsequent adjustment pertaining to purchase price allocation for the SM-1 hydroelectric facility out of property, plant and equipment and into intangible assets.

## **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 \$472.3 million in intangible assets as at December 31, 2015, compared with \$487.3 million as at December 31, 2014. The decrease is due mainly to amortization, partly offset by a \$6.6 million subsequent adjustment pertaining to purchase price allocation for the SM-1 hydroelectric facility into intangible assets from property, plant and equipment.

## **Project Development Costs**

Project development costs are the costs to acquire and establish 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's project development costs were nil as at December 31, 2015, compared with \$61.0 million as at December 31, 2014. The decrease stems from the transfer of the Mesgi'g Ugnu's'n project from project development costs and into property, plant and equipment since construction of the project began in last May and, although it retains ownership of the licenses, the recognition by the Corporation of a \$51.7 million impairment amount in relation to project development costs recorded toward future development in British Columbia following the Cloudworks Energy Inc. acquisition in 2011.

## **Investments in Joint Ventures**

Investments in joint ventures represent the Corporation's ownership portion of joint ventures, which are accounted for using the equity method. As at December 31, 2015, the Corporation had \$9.3 million in investments in joint ventures, compared with \$14.5 million as at December 31, 2014. This \$5.2 million decrease reflects \$6.9 million in distributions (\$3.1 million from Umbata Falls and \$3.8 million from Viger-Denonville) made by the joint ventures to the Corporation during the year, partly offset by the recognition of \$1.7 million in net earnings. Please refer to the "Investments in Joint Ventures" section for more information.

## **Liabilities and Shareholders' Equity**

### **Derivative Financial Instruments and Risk Management**

The Corporation uses derivative financial instruments ("Derivatives") to manage its exposure to the risk of increasing interest rates on its debt financing and its exposure to the risk of rising foreign currencies on its equipment purchases. The Corporation does not own or issue any Derivatives for speculation purposes. Since October 2014, the Corporation has used hedge accounting in the treatment of new Derivatives, and since April 1, 2015, has also adopted hedge accounting in the treatment of existing Derivatives used to fix the interest rate on the project-level debts (with the exception of that of Umbata Falls) and on most of its revolving term credit facility in order to reduce fluctuations in net earnings or losses resulting from unrealized gains or losses on these Derivatives during a given period. Under hedge accounting, most of the unrealized gains or losses on Derivatives that arise from a decrease or increase in the benchmark interest rate will be recorded in other comprehensive income, while only the portion of the unrealized gain or loss related to the "ineffectiveness" and the settlement of the Derivatives will be recorded in net earnings.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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Interest rate swap contracts allow the Corporation to eliminate the risk of interest rate increases in actual floating-rate debts. These totalled \$632.6 million as at December 31, 2015. Consequently, as at December 31, 2015, interest rate swaps related to outstanding debts combined with the \$1,521 million in existing fixed-rate debts and \$93.4 million in convertible debentures mean that 99% of outstanding debts are protected from interest rate increases.

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. Upon closing the 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 March 2015, the Corporation announced the closing of a \$491.6 million financing for the Boulder Creek and Upper Lillooet River hydroelectric projects. The concurrent settlement of the Boulder Creek and Upper Lillooet River bond forward contracts gave rise to a \$68.0 million realized loss on derivative financial instruments. This loss results from a decrease in benchmark interest rates between the date the bond forwards were entered into (between September and December 2013) and the settlement date (March 17, 2015) and will be compensated for by the low weighted average fixed interest rate of 4.36% for these 25- to 40-year term loans. In June 2015, the Corporation closed a \$197.2 million financing for the Big Silver Creek hydroelectric project. The concurrent settlement of the Big Silver Creek bond forward contracts gave rise to a \$24.7 million realized loss on derivative financial instruments. This loss results from a decrease in benchmark interest rates between the date the bond forwards were entered into (between December 2013 and January 2014) and the settlement date (June 22, 2015) and will be compensated for by the low weighted average fixed interest rate of 4.71% for these 25- to 40-year term loans. In September 2015, the Corporation announced the closing of a \$311.7 million financing for the Mesgi'g Ugju's'n wind project. The concurrent settlement of the Mesgi'g Ugju's'n bond forward contracts gave rise to a \$27.0 million realized loss on derivative financial instruments. This loss results from a decrease in benchmark interest rates between the date the bond forwards were entered into (in March 2014) and the settlement date (September 28, 2015) and will be compensated for by the low weighted average fixed interest rate of 4.18% for these 9.5- to 19.5-year term loans.

As at December 31, 2015, and as at the date of this MD&A, the Corporation had secured the project financing for all of its existing Development Projects and had no outstanding bond forward contracts (\$535.0 million for the Upper Lillooet River, Boulder Creek, Big Silver Creek and Mesgi'g Ugju's'n Development projects as at December 31, 2014).

As at the date of this MD&A, the Corporation had no euro foreign exchange forward contracts outstanding (\$78.4 million at December 31, 2014), as the foreign exchange forward contract it had entered into to eliminate the risk of a euro appreciation versus the Canadian dollar on equipment purchases for the Mesgi'g Ugju's'n project was settled upon maturity and the exchange rate for the euro portion of the turbine supply contract was fixed, eliminating any further euro exposure.

Overall, Derivatives had a net negative value of \$67.7 million at December 31, 2015 (negative \$145.8 million at December 31, 2014). The decrease is due mainly to the settlement of the Boulder Creek, Upper Lillooet River, Big Silver Creek and Mesgi'g Ugju's'n bond forward contracts. 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Outstanding Interest Rate Derivative Financial Instruments	Maturity	Early termination option	December 31, 2015	December 31, 2014
<b>Contracts for which hedge accounting has been applied since:</b>				
<b>October 16, 2014</b>				
Interest rate swaps, 2.33%	2024	2019	20,000	20,000
<b>December 15, 2014</b>				
Interest rate swaps, 2.30%	2024	2019	20,000	20,000
<b>April 1, 2015</b>				
Interest rate swaps, 4.27% to 4.41%	2018	None	82,600	82,600
Interest rate swaps, 2.94% to 4.83%, amortizing	2026	None	46,342	49,718
Interest rate swaps, from 3.35% to 3.50%, amortizing	2027	None	35,080	37,506
Interest rate swap, 3.74%, amortizing	2030	None	89,113	93,511
Interest rate swap, 4.22%, amortizing	2030	2016	26,063	27,485
Interest rate swap, 4.25%, amortizing	2031	2016	41,146	43,360
Interest rate swap, 4.61%, amortizing	2035	2025	97,957	100,463
Interest rate swap, 2.85%, amortizing	2041	2016	19,018	19,313
<b>September 28, 2015</b>				
Interest rate swap, 0.96%, amortizing	2017	None	49,250	—
Interest rate swap, 1.91%, amortizing	2026	None	103,000	—
<b>Contracts for which hedge accounting is not used:</b>				
Bond forwards, from 2.74% to 3.32%	2015	None	—	535,000
Interest rate swap, 3.96% to 4.09%	2015	None	—	15,000
Interest rate swap, 4.27%	2016	None	3,000	3,000
<b>Total</b>			<b>632,569</b>	<b>1,046,956</b>

## 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 December 31, 2015, accrual for acquisition of long-term assets was nil (\$25.3 million as at December 31, 2014). The \$25.3 million decrease results from payments made in relation to the construction of the Development Projects and the amounts borrowed for the construction of the projects.

## Long-Term Debt

As at December 31, 2015, long-term debt totalled \$2,215 million (\$1,645 million as at December 31, 2014). The \$570.8 million increase results mainly from the addition of the Boulder Creek and Upper Lillooet River debts in the amount of \$445.7 million out of the \$491.6 million project financing closed on March 17, the addition of the Big Silver Creek project financing closed on June 22 in the amount of \$197.2 million and from the addition of the Mesgi'g Ugju's'n debt in the amount of \$159.5 million out of the \$311.7 million project financing closed on September 28. This increase was partly offset by the scheduled repayment of project-level debts and the reduction of drawings under the revolving term credit facility using the proceeds of the issuance of convertible debentures bearing interest at 4.25% as well as a portion of the proceeds of the Boulder Creek, Upper Lillooet River and Big Silver Creek financings to reimburse the excess equity invested in the projects by the Corporation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Since the beginning of the 2015 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.

	Effective all-in interest rate after accounting for the interest rates swaps	Maturity	December 31, 2015	December 31, 2014
<b>Revolving credit term facility (with recourse to the Corporation)</b>				
a) Prime rate advances	3.30%	2019	20	20
a) Bankers' acceptances	5.50%	2019	129,880	321,880
a) LIBOR advances, US\$13,900	1.98%	2019	19,238	16,125
			149,138	338,025
<b>Term loans (Non-recourse to the Corporation)</b>				
b) Harrison Operating Facilities, non-interest bearing term loans from partners	--	2015	—	1,750
c) Hydro-Windsor, fixed rate term loan	8.25%	2016	1,015	2,145
d) Fitzsimmons Creek, floating-rate term loan	3.98%	2016	21,051	21,430
e) Magpie, fixed rate bridge loan	2.33%	2017	537	850
e) Magpie, fixed rate debenture	4.59%	2017	748	1,094
f) Montagne-Sèche, floating-rate term loan	5.97%	2021	26,063	27,485
g) Rutherford Creek, fixed rate term loan	6.88%	2024	39,378	42,677
e) Magpie, fixed rate convertible debenture	4.34%	2025	5,020	5,262
h) Ashlu Creek, floating-rate term loan	6.06%	2025	95,062	96,695
i) Sainte-Marguerite, fixed rate term loan	3.30%	2025	32,598	35,899
j) L'Anse-à-Valleau, floating-rate term loan	6.03%	2026	36,091	38,716
k) Carleton, floating-rate term loan	5.46%	2027	45,758	48,997
l) Stardale, floating-rate term loan	5.99%	2030	96,862	101,643
e) Magpie, fixed rate term loan	4.37%	2031	52,243	54,452
m) Kwoiek Creek, fixed rate term loan	5.08%	2052	168,500	168,500
n) Northwest Stave River, fixed rate term loan	5.30%	2053	71,972	71,972
m) Kwoiek Creek, fixed rate term loan	10.07%	2054	3,662	3,662
o) Tretheway, fixed rate construction loan	4.99%		92,916	92,916
p) Mesgi'g Ugju's'n, fixed rate construction loan	4.28%		159,459	—
q) Boulder and Upper Lillooet, fixed rate construction loan	4.22%		172,207	—
r) Big Silver, fixed rate construction loan	4.57%		51,012	—
q) Boulder and Upper Lillooet, fixed rate construction loan	4.46%		227,938	—
q) Boulder and Upper Lillooet, fixed rate construction loan	4.46%		45,588	—
r) Big Silver, fixed rate construction loan	4.76%		128,311	—
r) Big Silver, fixed rate construction loan	4.76%		17,900	—
i) Sainte-Marguerite, fixed rate debenture	8.00%	2064	42,401	42,401
Other loans with various maturities and interest rates		2017-2019	134	136
			1,634,426	858,682

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Effective all-in interest rate after accounting for the interest rates swaps	Maturity	December 31, 2015	December 31, 2014
<b>Bonds (Non-recourse to the Corporation)</b>				
s) Harrison Hydro L.P.'s facilities, real return	3.95%	2049	223,391	225,014
t) Harrison Hydro L.P.'s facilities, fixed rate	6.61%	2049	207,141	209,485
u) Harrison Hydro L.P.'s facilities, real return	5.02%	2049	28,222	27,820
			458,754	462,319
<b>Total long-term debt</b>			2,242,318	1,659,026
<b>Deferred financing costs</b>			(26,885)	(14,427)
			2,215,433	1,644,599
Current portion of long-term debt ( net of \$29 deferred financing costs in 2015, nil in 2014)			(54,995)	(33,799)
Long-term portion of long-term debt			2,160,438	1,610,800

Explanatory notes:

## a. Revolving term credit facility

The Corporation has a maximum borrowing capacity of \$425.0 million on its revolving term credit facility, which will mature in 2019.

As at December 31, 2015, the Bankers' Acceptances ("BA") rate advances and prime rate advances totaling \$129.9 million along with a LIBOR rate advance of \$19.2 million (US\$13.9 million) were due under this facility. An amount of \$95.5 million has been used to secure letters of credit. Thus, the unused and available position of the facility was \$180.4 million. The carrying value of assets of the Corporation and subsidiaries given as securities under this facility totals approximately \$473.1 million.

The revolving term credit facility was renegotiated on January 18, 2016, see subsequent events section.

## b. Harrison Operating Facilities, term loans

The non-interest bearing loans from the partners of the Corporation in the Harrison Project were repaid in full in 2015.

## c. Hydro-Windsor

The loan consists of a 20-year term loan starting in December 1996 and amortized over a 20-year period ending in December 2016. The loan is repayable by monthly blended payments of principal and interest totaling \$0.1 million. The principal repayments for 2016 are set at \$1.0 million. The loan is secured by the assets of Hydro-Windsor L.P. with a carrying value of approximately \$10.0 million.

## d. Fitzsimmons Creek

The loan consists of a five-year term loan starting in December 2011 and amortized over a 30-year period. The loan advances bear interest at the BA rate plus an applicable margin. The principal repayments are variable and are set at \$19.0 million for 2016. As at December 31, 2015, the all-in effective interest rate was 3.98% (3.98% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$150. As at December 31, 2015, an amount of \$50 had been used to secure one letter of credit. This debt is secured by the assets of Fitzsimmons Creek Hydro L.P. with a carrying value of approximately \$25.0 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## **e. Magpie**

The bridge loan is amortized until August 2017. The bridge loan is repayable in monthly blended payments of principal and interest totaling \$27. The principal repayments for the bridge loan are set at \$0.3 million for 2016.

The debenture is amortized until December 2017. The debenture is repayable by yearly blended payments of principal and interest totaling \$0.4 million, excluding non-cash implicit interest of \$35. The principal repayment for 2016 is set at \$0.4 million.

The convertible debenture has no predetermined repayment schedule and matures in January 2025. The convertible debenture entitles the municipality to a 30% interest in the facility upon conversion of the debenture on or before January 1, 2025. Early conversion is at the discretion of the Corporation.

The term loan amortizing until 2031 is repayable in monthly blended payments of principal and interest totaling \$0.4 million. The principal repayments for the term loan are variable and are set at \$1.7 million for 2016;

The bridge loan and the term loan are secured by the assets of Magpie L.P. with a carrying value of approximately \$99.7 million.

## **f. Montagne-Sèche**

In May 2014, the Corporation renegotiated the loan to extend the maturity to June 2021. The loan consists of a 7-year term loan, amortized over a 16-year period starting in May 2014. As at December 31, 2015, the loan bears interest at the BA rate plus an applicable margin. The principal repayments are variable and set at \$1.5 million for 2016. As at December 31, 2015, the all-in effective interest rate was 5.97% (5.97% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$0.4 million. As at December 31, 2015, an amount of \$0.3 million has been used to secure one letter of credit. The loan is secured by the assets of Innergex Montagne-Sèche, L.P. with a carrying value of approximately \$36.5 million.

## **g. Rutherford Creek**

The loan consists of a 20-year fixed rate term loan starting in July 2004 amortized over a 12-year period effective July 1, 2012. This debt is repayable by monthly blended payments of principal and interest totaling \$0.5 million. The principal repayments are variable and are set at \$3.5 million for 2016. The loan is secured by the assets of Rutherford Creek Power Limited Partnership, with a carrying value of approximately \$81.5 million.

## **h. Ashlu Creek**

The loan consists of a 15-year term loan, amortized over a 25-year period starting in September 2010. The loan bears interest at the BA rate plus an applicable margin. The term loan is repayable in quarterly installments. The principal repayments are variable and are set at \$3.3 million for 2016. As at December 31, 2015, the all-in effective interest rate was 6.06% (6.16% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$3.0 million. As at December 31, 2015, an amount of \$1.5 million had been used to secure one letter of credit. The loan is secured by the assets of Ashlu Creek hydroelectric facility with a carrying value of approximately \$164.3 million.

## **i. Sainte-Marguerite**

As part of the Sainte-Marguerite Acquisition, the Corporation assumed a \$30.8 million term loan, bearing interest at 7.40%, repayable in monthly blended payments of principal and interest totaling \$0.4 million, increasing over the years and maturing in 2025. The principal repayments for 2016 are set at \$2.6 million. The term loan was accounted for at its fair market value of \$37.5 million for an effective rate of 3.30%. The loan is secured by the assets of Sainte-Marguerite L.P. with a carrying value of approximately \$136.3 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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Concurrent with the acquisition of the Sainte-Marguerite facility, a debenture was issued by Sainte-Marguerite L.P. to Desjardins Group Pension Plan for total proceeds of \$40.9 million. In December 2014, an additional \$1.5 million was subscribed to the debenture issued by Sainte-Marguerite L.P. for a total amount of \$42.4 million. This debenture carries an interest rate of 8.00%; it has no predetermined repayment schedule and matures in 2064.

## **j. L'Anse-à-Valleau**

The loan consists of an 18.5-year term loan starting in December 2007 and amortized over an 18.5-year period. The loan bears interests at the BA rate plus an applicable margin. The term loan is repayable in quarterly installments. The principal repayments are variable and are set at \$2.8 million for 2016. As at December 31, 2015, the all-in effective interest rate was 6.03% (6.03% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a credit facility of \$1.2 million in order to secure letters of credit. As at December 31, 2015, an amount of \$0.4 million had been used to secure one letter of credit. The loan is secured by the assets of Innergex AAV, L.P. with a carrying value of approximately \$58.0 million.

## **k. Carleton**

The loan consists of a 14-year term loan starting in June 2013 and amortized over a 14-year period. The term loan bears interest at the BA rate plus an applicable margin. The term loan is repayable in quarterly installments. The principal repayments are variable and are set at \$3.4 million for 2016. As at December 31, 2015, the all-in effective interest rate was 5.46% (5.46% in 2014) after accounting for the interest rate swap.

This debt is secured by the assets of Innergex CAR, L.P. with a carrying value of approximately \$74.3 million.

## **l. Stardale**

The loan consists of an 18-year term loan starting in September 2012 and amortized over an 18-year period. The loan bears interest at the BA rate plus an applicable credit margin. The term loan is repayable in quarterly installments. The principal repayments are variable and set at \$5.0 million for 2016. As at December 31, 2015, the all-in effective interest rate was 5.99% (5.99% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$5.6 million. As at December 31, 2015, an amount of \$5.6 million had been used to secure two letters of credit. The loan is secured by the assets of Stardale L.P. with a carrying value of approximately \$114.5 million.

The loan was refinanced on February 22, 2016, see subsequent events section.

## **m. Kwoiek Creek**

The construction term loan was converted into a 37-year term loan in February 2015 and amortized over a 36-year period starting in January 2017. The term loan is repayable in quarterly installments. The principal repayments are variable and set at nil for 2016. The loan is secured by the assets of Kwoiek Creek Resources L.P. with a carrying value of approximately \$163.6 million.

The Corporation's partner in the Kwoiek Creek project made a loan to Kwoiek Creek Resources Limited Partnership. Under the project agreements, both partners can participate in the project financing.

## **n. Northwest Stave River**

The non-recourse construction loan was converted into a 38-year term loan in February 2015 and amortized over a 35-year period. The loan is secured by Northwest Stave River L.P.'s assets with a carrying value of approximately \$82.1 million.

## **o. Tretheway**

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. The construction loan carries a fixed interest rate of 4.99%; it will convert into a term loan in 2016 and the principal will begin to be amortized over a 35-year period, starting in the

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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fifth year following the commencement of delivery of electricity which took place on November 9, 2015. The loan is secured by the assets of Tretheway L.P. with a carrying value of approximately \$124.1 million.

## **p. Mesgi'g Ugju's'n**

On September 28, 2015, Mesgi'g Ugju's'n (MU) Wind Farm L.P. closed a \$311.7 million non-recourse construction and term project financing for the Mesgi'g Ugju's'n wind project.

The loan comprises three facilities or tranches:

- A \$49.3 million floating-rate construction loan carrying a swap-fixed interest rate of 2.41%; following the start of the wind farm's commercial operation, it will be repaid with the proceeds of the scheduled reimbursement by Hydro-Québec for the Mesgi'g Ugju's'n electrical substation. As at December 31, 2015, this tranche was not used;
- A \$103.0 million floating-rate construction loan carrying a swap-fixed interest rate of 3.54%; following the start of the wind farm's commercial operation, it will convert into a 9.5-year term loan and the principal will be amortized over the term of the loan. As at December 31, 2015, this tranche was not used;
- A \$159.5 million construction loan carrying a fixed interest rate of 4.28%; following the start of the wind farm's commercial operation, it will convert into a 19.5-year term loan and the principal will begin to be amortized after the maturity of the 9.5-year term loan. As at December 31, 2015, this tranche was fully used.

The lenders also agreed to make available a credit facility in an amount not to exceed \$51.3 million. As at December 31, 2015, an amount of \$31.6 million had been used to secure two letters of credit. This debt is secured by the assets of Mesgi'g Ugju's'n (MU) Wind Farm L.P. with a carrying value of approximately \$192.5 million.

## **q. Boulder Creek and Upper Lillooet River**

On March 17, 2015, Boulder Creek Power Limited Partnership and Upper Lillooet River Power Limited Partnership jointly closed a \$491.6 million non-recourse construction and term project financing for the Boulder Creek and Upper Lillooet River run-of-river hydroelectric projects.

The loan comprises three facilities or tranches:

- A \$191.6 million construction loan carrying a fixed interest rate of 4.22%; following the start of the facilities' commercial operation, it will convert into a 25-year term loan and the principal will be amortized over a 20-year period, starting in the sixth year. As at December 31, 2015, an amount of \$172.2 million had been drawn from this tranche;
- A \$250.0 million construction loan carrying a fixed interest rate of 4.46%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and the principal will begin to be amortized after the 25-year term loan's maturity. As at December 31, 2015, an amount of \$227.9 million had been drawn from this tranche;
- A \$50.0 million construction loan carrying a fixed interest rate of 4.46%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and its principal will be reimbursed at maturity. As at December 31, 2015, an amount of \$45.6 million had been drawn from this tranche.

This debt is secured by the assets of Boulder Creek Power L.P. and Upper Lillooet River Power L.P. with a carrying value of approximately \$464.0 million.

## **r. Big Silver Creek**

On June 22, 2015, Big Silver Creek Power Limited Partnership closed a \$197.2 million non-recourse construction and term project financing for the Big Silver Creek River run-of-river hydroelectric project.

The loan comprises three facilities or tranches:

- A \$51.0 million construction loan carrying a fixed interest rate of 4.57%; following the start of the facilities' commercial operation, it will convert into a 25-year term loan and the principal will begin to be amortized over an 18-year period starting in the seventh year;
- A \$128.3 million construction loan carrying a fixed interest rate of 4.76%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and the principal will be amortized after the 25-year term loan reaches maturity;

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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- A \$17.9 million construction loan carrying a fixed interest rate of 4.76%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and its principal will be reimbursed at maturity.

This debt is secured by the assets of Big Silver Creek Power L.P. with a carrying value of approximately \$190.7 million.

## **s. Harrison Operating Facilities, Senior Real Return bond**

The Harrison Operating Facilities Senior Real Return bond bears interest at 2.96% adjusted by an inflation ratio as well as an inflation compensation interest factor. Both inflation adjustments are based on the All-items Consumer Price Index for Canada ("CPI"), which is not seasonally adjusted. Payments on this bond are due semi-annually and the bond matures in June 2049. Semi-annual payments are \$5.8 million before CPI adjustment (\$6.6 million including CPI adjustment in 2015). In December 2031, the payment amount decreases to \$4.5 million before CPI adjustment, where it remains until maturity. For 2016, the principal repayments are set at \$5.8 million. The bond is secured by the Harrison Operating Facilities.

## **t. Harrison Operating Facilities, Senior Fixed Rate bond**

The Harrison Operating Facilities Senior Fixed Rate bond bears interest at 6.61%. Payments on this bond are due semi-annually with the bond maturing in September 2049. Semi-annual payments amount to \$8.1 million. In September 2031, the payment amount decreases to \$6.7 million, where it remains until maturity. For 2016, the principal repayments are set at \$3.3 million. The bond is secured by the Harrison Operating Facilities.

## **u. Harrison Operating Facilities, Junior Real Return bond**

The Harrison Operating Facilities Junior Real Return Rate bond bears interest at 4.27% adjusted by an inflation ratio and an inflation compensation interest factor. Both inflation adjustments are based on the CPI, which is not seasonally adjusted. Payments on this bond are due quarterly and the bond matures in September 2049. Quarterly interest payments amount to \$0.3 million before CPI adjustment (\$0.3 million including CPI adjustment in 2015).

In June 2017, the payment amount increases to \$0.4 million before CPI adjustment, where it remains until maturity. Principal repayment does not commence until June 2017. The bond is secured by the Harrison Operating Facilities.

## **Convertible debentures**

In 2015, the Corporation redeemed \$41.6 million and converted \$38.9 million of the convertible debentures bearing interest at 5.75% into 3,653,422 Innergex common shares pursuant to the issuance of a notice of redemption. The Corporation also issued subordinate unsecured convertible debentures bearing interest at a rate of 4.25% for a total amount of \$100.0 million. The net proceeds of \$95.5 million were used to reduce drawings under the revolving term credit facility; the funds available under this facility were used to redeem the outstanding convertible debentures bearing interest at 5.75%.

As at December 31, 2015, the liability portion of convertible debentures stood at \$93.4 million and the equity portion stood at \$1.9 million (\$80.0 million and \$1.3 million as at December 31, 2014). The convertible debentures currently outstanding bear interest at a rate of 4.25% per annum, payable semi-annually on August 31 and February 28 of each year, commencing on February 28, 2016. They are convertible at the holder's option into common shares of the Corporation at a conversion price of \$15.00 per share, representing a conversion rate of 66.6667 common shares per each \$1,000 of principal amount of convertible debentures. They will mature on August 31, 2020, and will not be redeemable before August 31, 2018, except in certain limited circumstances.

The convertible debentures are subordinated to all other indebtedness of the Corporation.

## **Preferred Shares**

On September 14, 2010, the Corporation issued a total of 3,400,000 Series A Preferred Shares at \$25.00 per share for aggregate gross proceeds of \$85.0 million. The holders of Series A Preferred Shares are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board of Directors. The dividends are payable quarterly on the 15th day of January, April, July and October in each year. For the initial five-year period to, but excluding January 15, 2016 (the "Initial Fixed Rate Period"), the dividends were payable at an annual rate equal to \$1.25 per share. The annual dividend rate for the five-year period starting January 15, 2016, equal \$0.902 per share.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

For each five-year period after the Initial Fixed Rate Period (each a "Subsequent Fixed Rate Period"), the holders of the Series A Preferred Shares will be entitled to receive fixed cumulative preferential cash dividends as and when declared by the Board of Directors. The dividends will be payable quarterly in an annual amount per Series A Preferred Share equal to the sum of the yield on a Government of Canada bond with a five-year term to maturity on the applicable fixed rate calculation date, plus 2.79% applicable to such Subsequent Fixed Rate Period multiplied by \$25.00.

Each holder of Series A Preferred Shares will have the right, at its option, to convert all or any of its Series A Preferred Shares into the Series B Preferred Shares of the Corporation on the basis of one Series B Preferred Share for each Series A Preferred Share converted, subject to certain conditions, on January 15, 2016, and on January 15 every five years thereafter. The holders of Series B Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends as and when declared by the Board of Directors. The dividends will be payable quarterly in an annual amount per Series B Preferred Share equal to the Treasury Bill rate for the preceding quarterly period plus 2.79% per annum determined on the 30th day prior to the first day of the applicable quarterly floating rate period multiplied by \$25.00. None of the Series A Preferred Shares were converted into Series B Preferred Shares on January 15, 2016.

The Series A Preferred Shares were not redeemable by the Corporation prior to January 15, 2016. None were redeemed at that date. The next redemption date is January 15, 2021, and on January 15 every five years thereafter, at which time, the Corporation may, at its option, redeem all or any number of the outstanding Series A Preferred Shares.

On December 11, 2012, the Corporation issued a total of 2,000,000 Series C Preferred Shares at \$25.00 per share for aggregate gross proceeds of \$50.0 million. Holders of the Series C Preferred Shares will be entitled to receive fixed cumulative preferential cash dividends as and when declared by the Corporation's Board of Directors. The dividends will be payable quarterly on the 15th day of January, April, July and October in each year at an annual rate equal to \$1.4375 per share. The Series C Preferred Shares will not be redeemable by the Corporation prior to January 15, 2018. The Series C Preferred Shares do not have a fixed maturity date and are not redeemable at the option of the holders.

The Series A Preferred Shares and the Series C Preferred Shares are rated P-3 by S&P.

For more information about the Series A Preferred Shares, please refer to the *Short Form Prospectus* dated September 7, 2010, and for more information about the Series C Preferred Shares, please refer to the *Short Form Prospectus* dated December 4, 2012, both of which are available on Innergex's website at [www.innergex.com](http://www.innergex.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## Shareholders' Equity

As at December 31, 2015, the Corporation's shareholders' equity totalled \$471.6 million, including \$21.9 million of non-controlling interests, compared with \$562.2 million, including \$47.4 million of non-controlling interests, as at December 31, 2014. This \$90.7 million decrease in total shareholders' equity is attributable mainly to the \$70.8 million in dividends declared on preferred and common shares, the recognition of a \$48.4 million net loss and the \$12.3 million purchase for cancellation of common shares under the Corporation's normal course issuer bid, partly offset by the issuance of 3,653,422 common shares at a price of \$10.65 per share, upon conversion at the holders' request, of convertible debentures bearing interest at 5.75%.

## Contractual Obligations

As at December 31, 2015	Total	Under 1 year	1 to 3 years	4 to 5 years	Thereafter
Long-term debt including convertible debentures	2,386,806	53,537	73,268	327,635	1,932,366
Interest on long-term debt and convertible debentures	2,345,798	114,509	228,329	206,920	1,796,040
Others	16,822	1,914	2,441	1,618	10,849
Purchase (Contractual) obligations <sup>1</sup>	397,598	349,388	4,514	4,427	39,269
<b>Total contractual obligations</b>	<b>5,147,024</b>	<b>519,348</b>	<b>308,552</b>	<b>540,600</b>	<b>3,778,524</b>

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

## Contingencies

The acquisition of Cloudworks Energy Inc. realized in 2011 provides for the potential payment of additional amounts to the vendors over a period commencing on the acquisition date and ending on the 40th anniversary of the last project under development to achieve commercial operation (or to April 4, 2061, if earlier). The deferred payments are effectively intended

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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to provide for a potential sharing of the value created if the projects perform better than the Corporation expects and would result in incremental accretion to the Corporation net of these payments. The maximum aggregate amount of all deferred payments under this acquisition was limited to a present value amount of \$35.0 million as at the acquisition date. In the year ended December 31, 2015, the Corporation recognized an impairment related to its BC Prospective Projects acquired in 2011. Concurrently with the recognition of an impairment, the Corporation recorded a \$3.4 million realized gain on contingent considerations in relation to amounts payable on the future development of the Prospective Projects in British Columbia acquired from Cloudworks Energy Inc.

In connection with the Magpie Acquisition, the Corporation assumed an obligation to pay contingent consideration to the Minganie Regional County Municipality until the convertible debenture issued by Magpie Limited Partnership is converted. Upon conversion, the Minganie Regional County Municipality will be entitled to a participation of 30% in Magpie Limited Partnership.

## **Off-Balance-Sheet Arrangements**

As at December 31, 2015, the Corporation had issued letters of credit totalling \$139.1 million to meet its obligations under its various PPAs and other agreements. Of this amount, \$95.5 million was issued under its revolving term credit facility, for the most part on a temporary basis during the construction of the Development Projects, with the remainder being issued under the projects' non-recourse credit facilities. As at that date, Innergex had also issued a total of \$30.6 million in corporate guarantees used mainly to support the performance of the Brown Lake hydroelectric facility and the construction of the Mesgi'g Ugju's'n project.

## **TRANSACTIONS BETWEEN RELATED PARTIES**

During the first quarter of 2015, Harrison Hydro L.P. reimbursed the \$1.8 million non-interest bearing term loans made by its partners.

## **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 operating activities 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 derivative financial instruments used to hedge the interest rate on project-level debt prior to securing such debt or the exchange rate on equipment purchases.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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Free Cash Flow and Payout Ratio calculation	Trailing 12 months ended December 31		
	2015	2014	2013
Cash flows from operating activities	4,557	87,578	122,286
<i>Add (Subtract) the following items:</i>			
Changes in non-cash operating working capital items	(8,275)	13,218	(30,283)
Maintenance capital expenditures net of proceeds from disposals	(3,553)	(2,851)	(2,441)
Scheduled debt principal payments	(31,813)	(29,190)	(26,520)
Free Cash Flow attributed to non-controlling interests <sup>1</sup>	(2,550)	(4,865)	(5,453)
Dividends declared on Preferred shares	(7,125)	(7,125)	(7,391)
Cash receipt for wheeling services to be provided by the Harrison Hydro L.P. to other facilities <sup>2</sup>	3,327	2,092	4,916
<i>Adjust for the following elements:</i>			
Transaction costs related to realized acquisitions	261	521	609
Realized losses on derivative financial instruments	119,557	8,366	3,259
<b>Free Cash Flow</b>	<b>74,386</b>	<b>67,744</b>	<b>58,982</b>
Dividends declared on common shares	63,646	59,549	54,967
Payout Ratio - before the impact of the DRIP	86%	88%	93%
Dividends declared on common shares and paid in cash <sup>3</sup>	57,613	49,358	36,982
Payout Ratio - after the impact of the DRIP	77%	73%	63%

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. These amounts represent cash receipts by the Harrison Hydro L.P. for the wheeling services to be provided to the Big Silver, 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 year ended December 31, 2015, the Corporation generated Free Cash Flow of \$74.4 million, compared with \$67.7 million for the same period last year. This increase is due mainly to higher adjusted EBITDA resulting in greater cash flows. The realized losses on derivative financial instruments were not financed from the operations but from the project-level financings put in place in 2015.

During the year, the Corporation used \$12.4 million of its Free Cash Flows to purchase for cancellation 1,190,173 common shares under its normal course issuer bid.

## 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 year ended December 31, 2015, the dividends on common shares declared by the Corporation corresponded to 86% of Free Cash Flow, compared with 88% for the corresponding prior 12-month period. This positive change is due mainly to the increase in Free Cash Flow explained above, which more than offset the increase in dividends resulting from the higher number of common shares outstanding by virtue of the DRIP, 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 and the issuance of 3,653,422 common shares of the Corporation upon conversion, at the holders' request, of convertible debentures bearing interest at a rate of 5.75%.

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 year ended December 31, 2015, the Corporation incurred prospective project expenses of \$8.0 million, compared with \$5.7 million for the corresponding prior period. This 41% increase is attributable mainly to the current request for proposals in Ontario, to the advancement of a number of prospective projects and to pursuing opportunities in new international markets.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Excluding these discretionary expenses, the Corporation's Payout Ratio would be approximately 8% points lower for the year ended December 31, 2015, and approximately 7% points lower for the corresponding prior period.

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

## PROJECTED FINANCIAL PERFORMANCE

As at the date of this MD&A, the Corporation has 34 Operating Facilities with a net installed capacity of 708 MW (gross 1,216 MW) and annualized consolidated long-term average production of 3,130 GWh. The Corporation is also pursuing the construction of four Development Projects with power purchase agreements.

### Outlook for 2016

	2016	2015	2014
Power Generated (GWh)	approx. +6-8%	2,988 +1%	2,962 +24%
Revenues	approx. +9-11%	246,869 +2%	241,834 +22%
Adjusted EBITDA	approx. +7-9%	183,738 +2%	179,562 +21%
Number of facilities in operation	36	34	33
Net installed capacity (MW)	823	708	687
Consolidated LTA production, annualized (GWh)	3,785	3,130	3,050

The increase in installed capacity and in the number of facilities in operation in 2016 reflects the expected commissioning of the Big Silver Creek hydroelectric facility and the Mesgi'g Ugju's'n wind farm project before year-end. Projected increases in production and revenues reflect production levels in line with the long-term average production. The increase in Adjusted EBITDA reflects a significant increase in expected Prospective Projects expenses, as the Corporation funds its expansion into target markets internationally. In 2015, Power Generated and Revenues were expected to increase 3-5% while lower-than LTA production resulted in a 1% and 2% respective increase. Although adjusted EBITDA was expected to increase by 1%, it actually increased by 2%, despite lower production, due to lower operating and administrative expenses than had been budgeted.

### OUTLOOK FOR 2017

The Corporation makes certain projections to provide readers with an indication of its business activities and operating performance once the four existing Development Projects have been commissioned. Please refer to the "Development Projects" section for more information on these projects. These projections do not take into account possible acquisitions, divestments or additional Development Projects following the award of any new power purchase agreements.

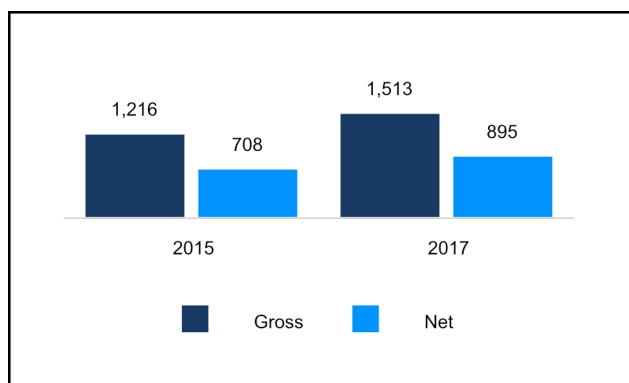
Once the four Development Projects have been commissioned, the Corporation expects its annualized consolidated LTA production to increase from 3,130 GWh at the end of 2015 to 4,211 GWh starting in 2017, which corresponds to a 35% increase.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Projected Installed Capacity

The Corporation believes that installed capacity provides a good indication of the size and magnitude of its operations. Once the four existing Development Projects have been commissioned, the Corporation expects its net installed capacity to increase from 708 MW (gross 1,216 MW) at the date of this MD&A to 895 MW (gross 1,513 MW) at the end of 2017, corresponding to a 26% increase (gross 24%). Net installed capacity reflects the fact that some of the Corporation's Operating Facilities are not wholly-owned. Installed capacity includes the Umbata Falls and Viger-Denonville facilities that are treated as joint ventures and accounted for using the equity method.



## Projected Long-Term Average Production (LTA)

A key performance indicator for the Corporation is to compare actual electricity generation with the expected LTA production for each facility. Once the four existing Development Projects have been commissioned, the Corporation expects its annualized consolidated LTA production to increase from 3,130 GWh as at the date of this MD&A to 4,211 GWh starting in 2017, corresponding to a 35% increase. Consolidated LTA production is presented in accordance with revenue recognition accounting rules under IFRS and excludes the Umbata Falls and Viger-Denonville facilities that are treated as joint ventures and accounted for using the equity method.

Annualized Consolidated LTA Production

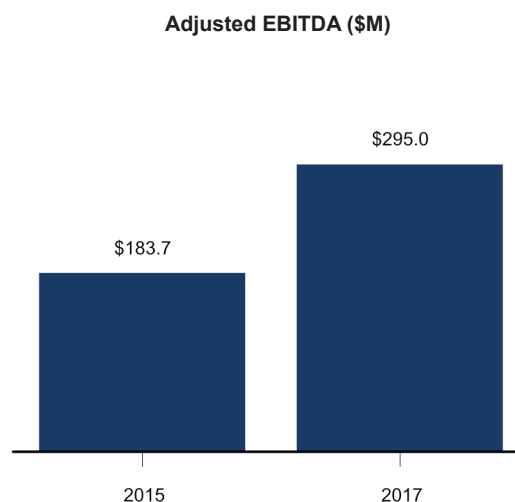
	As at the date of this MD&A	Starting in 2017
Hydro	2,415.9	2,982.2
Wind	676.5	1,191.5
Solar <sup>1</sup>	37.9	37.6
<b>Total</b>	<b>3,130.3</b>	<b>4,211.3</b>

1. Solar farm LTA diminishes over time due to expected solar panel degradation

## Projected Adjusted EBITDA

A key performance indicator for the Corporation is Adjusted EBITDA generation. Once the four Development Projects have been commissioned, the Corporation expects to generate annualized Adjusted EBITDA starting in 2017 of approximately \$295.0 million (adjusted for an inflation component thereafter), compared with \$183.7 million in 2015. This represents an annual compound growth rate of approximately 27% for the 2015-2017 period. Adjusted EBITDA is presented in accordance with revenue recognition accounting rules under IFRS and excludes the Umbata Falls and Viger-Denonville facilities that are treated as joint ventures and accounted for using the equity method. The annual Adjusted EBITDA for these facilities combined attributable to the Corporation is approximately \$8.0 million.

It should be noted that Adjusted EBITDA does not take into account the impact of interest and principal payments on the Corporation's existing debt and on the project-level debt financing.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

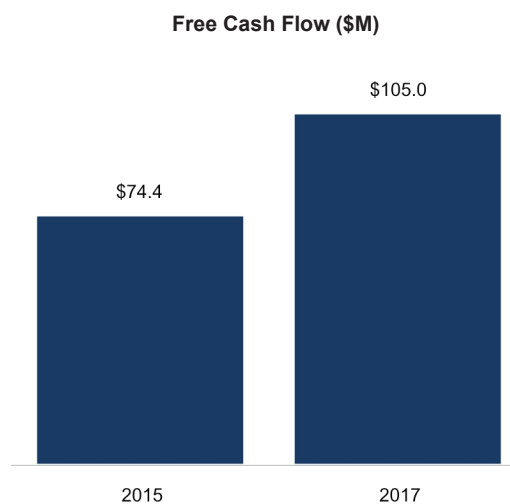
*(in thousands of Canadian dollars, except as noted, and amounts per share)*

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## Projected Free Cash Flow

Another key performance indicator for the Corporation is the Free Cash Flow generated from its operations and available for distribution to common shareholders and for reinvestment to fund its growth. Once the four existing Development Projects have been commissioned, the Corporation expects to generate Free Cash Flow in 2017 of approximately \$105.0 million, compared with \$74.4 million in 2015. This represents an annual compound growth rate of approximately 19% for the 2015-2017 period and will reflect the cash flows generated by the Corporation's 38 Operating Facilities at that time, after taking into account maintenance capital expenditures, scheduled debt principal payments, preferred share dividends and the portion of Free Cash Flow attributed to non-controlling interests. For 2017, the increase in Free Cash Flow of \$10.0 million (\$105.0 million compared to \$95.0 million), compared with the information published as at December 31, 2014, is due mainly to more favourable debt amortization schedules on the project-level debts that the Corporation has secured over the past several months.

For more information on the principal assumptions used in determining projected financial information and the principal risks and uncertainties related thereto, please refer to the "Forward-Looking Information" section.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## SEGMENT INFORMATION

### Geographic Segments

As at December 31, 2015, the Corporation had interests in 26 hydroelectric facilities, six wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the year ended December 31, 2015, the revenues generated by the Horseshoe Bend hydroelectric facility in the United States totalled \$3.8 million (\$3.4 million in 2014), corresponding to a contribution of 1.5% (1.4% in 2014) to the Corporation's consolidated revenues. Lower production during 2015 compared with last year was offset by higher selling prices expressed in Canadian dollars.

### Operating Segments

As at December 31, 2015, 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, 2015. 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.

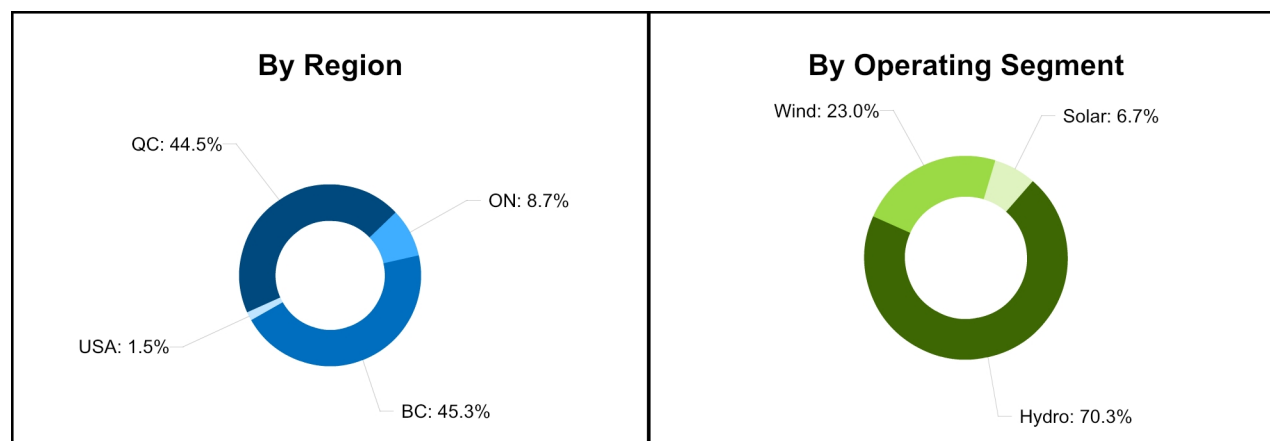
SUMMARY OPERATING RESULTS Year ended December 31, 2015	Hydroelectric Generation	Wind Power Generation	Solar Power Generation	Site Development	Total
Power generated (MWh)	2,238,376	709,712	39,549	—	2,987,637
Revenues	173,567	56,691	16,611	—	246,869
Expenses:					
Operating expenses	30,696	9,512	730	—	40,938
General and administrative expenses	7,747	3,497	153	2,791	14,188
Prospective project expenses	—	—	—	8,005	8,005
Adjusted EBITDA	135,124	43,682	15,728	(10,796)	183,738
Year ended December 31, 2014					
Power generated (MWh)	2,245,224	677,107	40,119	—	2,962,450
Revenues	171,029	53,971	16,834	—	241,834
Expenses:					
Operating expenses	30,828	9,538	1,146	—	41,512
General and administrative expenses	8,205	3,798	159	2,902	15,064
Prospective project expenses	—	—	—	5,696	5,696
Adjusted EBITDA	131,996	40,635	15,529	(8,598)	179,562

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL POSITION As at December 31, 2015	Hydroelectric Generation	Wind Power Generation	Solar Power Generation	Site Development	Total
Goodwill	8,269	—	—	—	8,269
Total assets	1,806,873	332,698	114,543	874,189	3,128,303
Total liabilities	1,344,518	213,415	107,641	991,172	2,656,746
Acquisition of property, plant and equipment during the year	4,051	871	81	299,549	304,552
<b>As at December 31, 2014</b>					
Goodwill	8,269	—	—	—	8,269
Total assets	1,752,495	352,723	120,957	489,840	2,716,015
Total liabilities	1,241,530	238,450	111,814	561,996	2,153,790
Acquisition of property, plant and equipment during the year	123,185	549	161	223,405	347,300

## Breakdown of 2015 Revenues



### Hydroelectric Generation Segment

For the year ended December 31, 2015, this segment produced 96% of the LTA and generated revenues of \$173.6 million, compared with a production at 100% of the LTA and revenues of \$171.0 million for the same period last year. The revenue increase in this segment is due mainly to the full-year contribution of the SM-1 hydroelectric facility acquired in June 2014 and to the commissioning of the Tretheway Creek facility on October 27, 2015, which were partly offset by lower water flows in British Columbia.

The increase in total assets since December 31, 2014, is attributable mainly to the addition from the Site Development Segment of the Tretheway Creek facility in late October, which was partly offset by depreciation of property, plant and equipment and amortization of intangible assets.

The increase in total liabilities since December 31, 2014, is attributable mainly to the transfer of the Tretheway Creek loan from the Site Development segment, which was partly offset by the scheduled repayment of long-term debt.

### Wind Power Generation Segment

For the year ended December 31, 2015, this segment produced 105% of the LTA and generated revenues of \$56.7 million, compared with production at 100% of the LTA and revenues of \$54.0 million for the same period last year. The production increase and corresponding revenue increase are due mainly to higher wind regimes.

The decrease in total assets since December 31, 2014, is attributable mainly to depreciation of property, plant and equipment and amortization of intangible assets.

The decrease in total liabilities since December 31, 2014, is attributable mainly to the scheduled repayment of long-term debt.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Solar Power Generation Segment

For the year ended December 31, 2015, this segment produced 104% of the LTA and generated revenues of \$16.6 million, compared with production at 104% of the LTA and revenues of \$16.8 million for the same period last year. The stability in production and revenues stems mainly from solar irradiation similar to the same period last year.

The decrease in total assets since December 31, 2014, results mainly from depreciation of property, plant and equipment and from amortization of intangible assets.

The decrease in total liabilities since December 31, 2014, is attributable mainly to the scheduled repayment of long-term debt.

## Site Development Segment

For the year ended December 31, 2015, site development expenses were \$10.8 million, compared with \$8.6 million in 2014. The increase is due mainly to prospective project expenses incurred for the advancement of a number of prospective projects, to the current request for proposals in Ontario and to pursuing opportunities in new international markets.

The increase in total assets since December 31, 2014, is attributable mainly to payments made for costs incurred for the construction of the Development Projects and to the increase in restricted cash from the addition of a portion of the financing received from the Boulder Creek, Upper Lillooet River, Big Silver Creek and the Mesgi'g Ugnu's'n project-level debts, which were partly offset by the transfer to the Hydroelectric Generation Segment of the Tretheway Creek project development costs.

The increase in total liabilities since December 31, 2014, is mainly due to drawings on the Boulder Creek, Upper Lillooet River, Big Silver Creek and Mesgi'g Ugnu's'n project financings, which were partly offset by the transfer to the Hydroelectric Generation Segment of the Tretheway Creek project financing.

## QUARTERLY FINANCIAL INFORMATION

(in millions of dollars, unless otherwise stated)	Three months ended			
	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	Mar. 31, 2015
Power generated (MWh)	647,062	777,975	904,172	658,427
Revenues	56.3	62.7	70.2	57.7
Adjusted EBITDA	38.8	48.6	53.4	43.0
Realized and unrealized net gain (loss) on derivative financial instruments	2.0	(2.7)	18.6	(56.0)
Impairment of project development costs	(51.7)	—	—	—
Net (loss) earnings	(34.4)	1.3	22.5	(37.8)
Net (loss) earnings attributable to owners of the parent	(30.6)	5.8	22.8	(29.1)
Net (loss) earnings attributable to owners of the parent (\$ per share – basic and diluted)	(0.31)	(0.21)	(0.37)	(0.63)
Dividends declared on preferred shares	1.8	1.8	1.8	1.8
Dividends declared on common shares	16.1	16.2	15.7	15.7
Dividends declared on common shares, \$ per share	0.155	0.155	0.155	0.155

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(in millions of dollars, unless otherwise stated)	Three-months ended			
	Dec 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014
Power generated (MWh)	819,903	826,617	898,722	417,209
Revenues	68.2	66.4	69.6	37.6
Adjusted EBITDA	48.7	51.7	53.8	25.3
Realized and unrealized net (loss) gain on derivative financial instruments	(49.6)	(15.3)	(29.1)	(36.0)
Impairment of project development costs	—	—	—	—
Net loss	(27.6)	(4.5)	(14.2)	(38.1)
Net loss attributable to owners of the parent	(18.9)	(0.7)	(7.8)	(27.4)
Net loss attributable to owners of the parent (\$ per share – basic and diluted)	(0.21)	(0.02)	(0.10)	(0.30)
Dividends declared on preferred shares	1.8	1.8	1.8	1.8
Dividends declared on common shares	15.1	15.1	15.0	14.4
Dividends declared on common shares, \$ per share	0.150	0.150	0.150	0.150

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 unrealized and realized gains (losses) on derivative financial instruments arising from the increase (decrease) in benchmark interest rates. However, since the Corporation has adopted hedge accounting in the treatment of derivative financial instruments, the net earnings or losses resulting from unrealized gains or losses on these derivative financial instruments should less strongly reflect the fluctuations in a given period. Historical analysis of net earnings (losses) should, however, continue to take this factor into account. It should be borne in mind that changes in the unrealized changes in 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. Furthermore, the Corporation recorded an amount of impairment on project development costs, which had an impact on the net loss registered in the fourth quarter of 2015.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## FOURTH QUARTER RESULTS

### Electricity Production

Three months ended December 31	2015				2014			
	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
<b>HYDRO</b>								
Quebec	150,780	181,486	83%	83.66	184,296	181,486	102%	77.77
Ontario	20,912	21,212	99%	70.42	26,256	21,212	124%	70.28
British Columbia	276,543	269,952	102%	87.13	404,151	264,831	153%	83.86
United States	2,301	5,223	44%	93.42	2,752	5,223	53%	78.64
Subtotal	450,536	477,873	94%	85.23	617,455	472,752	131%	81.44
<b>WIND</b>								
Quebec	190,198	207,276	92%	80.10	197,162	207,276	95%	79.75
<b>SOLAR</b>								
Ontario	6,328	5,783	109%	420.00	5,286	5,824	91%	420.00
Total	647,062	690,932	94%	86.99	819,903	685,852	120%	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 three-month period ended December 31, 2015, the Corporation's facilities produced 647 GWh of electricity or 94% of the LTA of 691 GWh. Overall, the hydroelectric facilities produced 94% of their LTA, due mainly to below-average water flows in Quebec partially offset by above-average water flows in British Columbia. Production at the facility in the United States was affected by below-average water flows. Overall, the wind farms produced 92% of their LTA due to below-average wind regimes. The Stardale solar farm produced 109% of its LTA due mainly to above-average solar regimes.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Financial Results

	Three months ended December 31			
	2015		2014	
Revenues	56,291	100.0%	68,215	100.0%
Operating expenses	11,185	19.9%	12,874	18.9%
General and administrative expenses	3,297	5.9%	5,101	7.5%
Prospective project expenses	2,990	5.3%	1,492	2.2%
Adjusted EBITDA	38,819	69.0%	48,748	71.5%
Finance costs	20,097		20,723	
Other net revenues	(2,916)		(66)	
Depreciation and amortization	19,106		17,662	
Impairment of project development costs	51,719		—	
Share of earnings of joint ventures <sup>1</sup>	(858)		(481)	
Unrealized net (gain) loss on derivative financial instruments	(1,962)		49,574	
(Recovery of) income tax expense	(11,976)		(11,096)	
Net loss	(34,391)		(27,568)	
Net loss attributable to				
Owners of the parent	(30,570)		(18,876)	
Non-controlling interests	(3,821)		(8,692)	
	(34,391)		(27,568)	
Basic net loss per share (\$)	(0.31)		(0.21)	

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 December 31, 2015, the Corporation recorded revenues of \$56.3 million, compared with \$68.2 million in 2014, due mainly to average water flows in British Columbia, compared with above-average water flows in the same period last year and to below-average water flows in Quebec, compared to average water flows in the same period last year.

### Expenses

For the three-month period ended December 31, 2015, the Corporation recorded operating expenses of \$11.2 million (\$12.9 million in 2014), general and administrative expenses of \$3.3 million (\$5.1 million in 2014) and prospective project expenses of \$3.0 million (\$1.5 million in 2014). The decrease in operating expenses compared with the same period last year is due mainly to varying costs associated with the production levels. The decrease in general and administrative expenses is due mainly to more resources being allocated to prospective project expenses and lower administrative expenses. The increase in prospective project expenses is in line with the Corporation's strategic international development plan.

### Adjusted EBITDA

For the three-month period ended December 31, 2015, the Corporation recorded Adjusted EBITDA of \$38.8 million, compared with \$48.7 million in 2014, due mainly to revenues and expenses as described above.

### Finance Costs

During the fourth quarter, finance costs were \$20.1 million (\$20.7 million in 2014) due mainly to negative inflation compensation interest on the real-return bonds as opposed to positive inflation compensation interest in the same period last year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Depreciation and Amortization

During the fourth quarter, depreciation and amortization expense totalled \$19.1 million (\$17.7 million in 2014) due mainly to the greater number of facilities in operation and the amortization of an extended two-year warranty contracted for Phase II of the Gros-Morne wind farm.

## Impairment of project development costs

BC Hydro's Site C is moving forward. Construction of the project started in the summer of 2015. Furthermore, in September 2015, the BC Supreme Court dismissed a petition seeking an order to quash the Environmental Assessment Certificate for the project issued by the Minister of the Environment and the Minister of Forests, Lands and Natural Resource Operations. In November 2015, BC Hydro and the BC Government announced the awarding of a \$1.5 billion construction contract for Site C. The odds of success with litigation against Site C led by First Nations and various environmental groups are fairly remote, as construction activities are under way. BC Hydro publicly announced that, based on their forecasts, it would likely be the early 2030s before the utility foresees the need for a significant block of new electricity from IPPs. Consequently, in the year ended December 31, 2015, the Corporation recognized an impairment of \$51.7 million (\$nil in 2014) related to its BC Prospective Projects, resulting in an income tax recovery of \$13.6 million.

Concurrently with the recognition of the impairment, the Corporation recorded a \$3.4 million realized gain on contingent considerations in relation to amounts payable on the future development of the Prospective Projects in British Columbia acquired from Cloudworks Energy Inc. in 2011.

## Net Loss

For the three-month period ended December 31, 2015, the Corporation recorded a net loss of \$34.4 million (basic and diluted net loss per share of \$0.31), compared with a net loss of \$27.6 million in 2014 (basic and diluted net loss per share of \$0.21). This difference is in part due to a lower Adjusted EBITDA, as explained above. Furthermore, the Corporation recorded an impairment expense with respect to project development costs in the amount of \$51.7 million and a \$2.0 million unrealized net gain on derivative financial instruments giving a total net impact on the net loss of \$49.7 million. In the fourth quarter ended December 31, 2014, the Corporation recorded a \$49.6 million unrealized net loss on derivative financial instruments due to a decrease in the benchmark interest rates.

## 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 December 31	2015				2014			
	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
Umbata Falls	27,549	33,037	83%	84.79	51,638	33,037	156%	84.48
Viger-Denonville	20,334	20,300	100%	149.13	20,752	20,300	102%	148.55

Year ended December 31	2015				2014			
	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
Umbata Falls	116,207	109,101	107%	84.80	127,394	109,101	117%	84.41
Viger-Denonville	80,319	72,400	111%	149.13	74,595	72,400	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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Umbata Falls, L.P.

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

	Year ended December 31	
	2015	2014
Revenues	9,854	10,754
Operating and general and administrative expenses	846	859
Adjusted EBITDA	9,008	9,895
Finance costs	2,559	2,443
Other net revenues	(32)	(38)
Depreciation and amortization	4,019	4,015
Unrealized net loss on derivative financial instruments	1,217	3,844
Net earnings (loss) and comprehensive income (loss)	1,245	(369)

For the year ended December 31, 2015, production was 107% of the LTA, due mainly to above-average water flows. The decrease in Adjusted EBITDA is due mainly to lower production levels than for the same period last year. The net earnings for the year as opposed to last year's net loss reflects a smaller unrealized net loss on derivative financial instruments resulting from a smaller decrease in the benchmark interest rate compared with the same period last year.

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

	As at	December 31, 2015	December 31, 2014
Current assets		2,223	4,229
Non-current assets		68,467	72,116
		70,690	76,345
Current liabilities		3,062	46,824
Non-current liabilities		48,852	5,749
Partners' equity		18,776	23,772
		70,690	76,345

As at December 31, 2015, the reduction in partners' equity stems from a distribution of \$6.2 million, partly offset by the recognition of net earnings of \$1.2 million for the year. The decrease in current liabilities and corresponding increase in non-current liabilities result from the successful refinancing of the facility on March 30, 2015. 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 derivative financial instruments for speculation purposes. An amortizing interest-rate swap totaling \$44.3 million used to hedge the interest rate on the Umbata Falls loan had a net negative value of \$8.1 million at December 31, 2015 (negative \$6.9 million at December 31, 2014).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Viger-Denonville, L.P.

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

	Year ended December 31	
	2015	2014
Revenues	11,978	11,081
Operating and general and administrative expenses	1,923	1,818
Adjusted EBITDA	10,055	9,263
Finance costs	3,636	3,570
Other net revenues	(45)	(69)
Depreciation and amortization	2,921	2,933
Unrealized net loss on derivative financial instruments	1,639	3,838
Net earnings (loss)	1,904	(1,009)
Other comprehensive income	127	—
Total other comprehensive income (loss)	2,031	(1,009)

For the year ended December 31, 2015, production was 111% of the LTA, due mainly to above-average wind regimes. The increase in revenues and Adjusted EBITDA is due mainly to higher production levels than for the same period last year.

On April 1, 2015, the Corporation decided to begin using hedge accounting in the treatment of existing derivative financial instruments used to fix the interest rate on the Viger-Denonville project-level debt in order to reduce the fluctuations in net earnings or losses resulting from unrealized gains or losses on these derivative financial instruments during a given period. Under hedge accounting, most of the unrealized gains or losses on derivative financial instruments that arise from a decrease or increase in the benchmark interest rate will be recorded as other comprehensive income or loss.

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

	As at	December 31, 2015	December 31, 2014
Current assets		2,426	5,960
Non-current assets		59,518	62,452
		61,944	68,412
Current liabilities		4,500	4,002
Non-current liabilities		57,191	58,588
Partners' equity		253	5,822
		61,944	68,412

As at December 31, 2015, the reduction in partners' equity stems mainly from a distribution of \$7.6 million, partly offset by the recognition of total comprehensive income for the year. 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 derivative financial instruments for speculation purposes. An amortizing interest-rate swap totaling \$54.3 million used to hedge the interest rate of the Viger-Denonville loan had a net negative value of \$6.2 million at December 31, 2015 (negative \$4.7 million at December 31, 2014).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

(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 Subsidiaries

The Corporation owns a 50.01% interest in Harrison Hydro Limited Partnership, which has interests in six hydroelectric facilities: Douglas Creek, Fire Creek, Lamont Creek, Stokke Creek, Tipella Creek and Upper Stave River.

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

	Year ended December 31	
	2015	2014
Revenues	42,452	49,671
Adjusted EBITDA	33,123	37,929
Net loss and comprehensive loss	(9,428)	(9,544)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(5,287)	(5,367)
Non-controlling interests	(4,141)	(4,177)
	(9,428)	(9,544)

For the year ended December 31, 2015, the smaller net loss is due mainly to lower inflation compensation interest on the real return bonds of \$2.9 million (\$6.7 million in 2014), which offset the smaller revenues.

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

	As at	December 31, 2015	December 31, 2014
Current assets		16,930	31,079
Non-current assets		631,521	646,421
		648,451	677,500
Current liabilities		15,653	19,582
Non-current liabilities		461,810	462,609
Equity attributable to owners		105,593	118,325
Non-controlling interests		65,395	76,984
		648,451	677,500

The decrease in equity attributable to owners and non-controlling interests is due mainly to a \$14.9 million distribution to the Corporation and its partners and to the recognition of a net loss and comprehensive loss.

### Creek Power Inc. and Its Subsidiaries

The Corporation owns a 66 2/3% interest in Creek Power Inc., which has interests in the Fitzsimmons Creek hydroelectric facility and the Upper Lillooet River and Boulder Creek Development Projects. For more information on these projects, please refer to the "Development Projects" sections.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

	Year ended December 31	
	2015	2014
Revenues	3,135	3,053
Adjusted EBITDA	1,198	1,217
Net loss	(19,077)	(46,588)
Other comprehensive income	147	—
<b>Total comprehensive loss</b>	<b>(18,930)</b>	<b>(46,588)</b>
Net loss attributable to:		
Owners of the parent	(12,708)	(31,034)
Non-controlling interest	(6,369)	(15,554)
	<b>(19,077)</b>	<b>(46,588)</b>
Total comprehensive loss attributable to:		
Owners of the parent	(12,610)	(31,034)
Non-controlling interest	(6,320)	(15,554)
	<b>(18,930)</b>	<b>(46,588)</b>

For the year ended December 31, 2015, the net loss reflects a \$68.0 million realized loss on derivative financial instruments resulting from the settlement of the Boulder Creek and Upper Lillooet River bond forward contracts upon the closing of the financing for these projects on March 17, which was partly offset by an unrealized gain of \$48.8 on derivative financial instruments resulting from the reversal of unrealized losses accumulated at December 31, 2014, upon settlement of these bond forward contracts. For the same period last year, the net loss was due mainly to an unrealized net loss on derivative financial instruments resulting from a decrease in benchmark interest rates.

On April 1, 2015, the Corporation decided to begin using hedge accounting in the treatment of existing derivative financial instruments used to fix the interest rate on its project-level debts in order to reduce the fluctuations in net earnings or losses resulting from unrealized gains or losses on these derivative financial instruments during a given period. Under hedge accounting, most of the unrealized gains or losses on derivative financial instruments that arise from a decrease or increase in the benchmark interest rate will be recorded as other comprehensive income or loss.

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

	As at	December 31, 2015	December 31, 2014
Current assets		182,681	8,707
Non-current assets		342,038	218,832
		<b>524,719</b>	<b>227,539</b>
Current liabilities		59,716	78,882
Non-current liabilities		539,660	204,384
Deficit attributable to owners		(53,541)	(40,931)
Non-controlling deficit		(21,116)	(14,796)
		<b>524,719</b>	<b>227,539</b>

The increase in current assets is due mainly to the increase in restricted cash from the unused proceeds of the project financing. The increase in non-current assets is due mainly to construction spending for the Upper Lillooet River and Boulder Creek projects. The decrease in current liabilities is due to the settlement of the bond forward contracts explained below partly offset by the reclassification to the current liabilities of the Fitzsimmons Creek project's loan, which is scheduled to mature in 2016. Fitzsimmons expects to refinance this loan during 2016. On March 17, 2015, the Corporation announced the closing of a \$491.6 million non-recourse construction and term project financing comprised of three tranches and carrying interest rates of 4.22% and 4.46% (weighted average fixed rate of 4.36%). Concurrently 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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

returns on the projects, giving rise to a \$68.0 million realized loss on derivative financial instruments. This is equivalent to a fixed interest rate of approximately 5.66% on the loans and is well within the parameters of the economic model for these projects. As of December 31, 2015, proceeds of \$445.7 million out of the \$491.6 million project financing had been received. The greater deficit attributable to the owners and the negative value of non-controlling interest are due mainly to the recognition of a net loss and comprehensive loss for the year.

## Kwoiek Creek Resources Limited Partnership

The Corporation owns a 50.0% interest in Kwoiek Creek Resources Limited Partnership, which owns the Kwoiek Creek hydroelectric facility.

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

	Year ended December 31	
	2015	2014
Revenues	18,553	17,969
Adjusted EBITDA	14,091	14,271
Net loss and comprehensive loss	(4,333)	(1,266)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(1,947)	(414)
Non-controlling interest	(2,386)	(852)
	(4,333)	(1,266)

For the year ended December 31, 2015, the increase in revenues is due mainly to production levels that were higher than for the same period last year, while the decrease in Adjusted EBITDA stems mainly from higher operating expenses.

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

	As at	December 31, 2015	December 31, 2014
Current assets		6,946	28,098
Non-current assets		177,836	177,749
		184,782	205,847
Current liabilities		8,599	8,362
Non-current liabilities		196,430	213,399
Deficit attributable to owners		(9,875)	(7,928)
Non-controlling interests deficit		(10,372)	(7,986)
		184,782	205,847

Following the conversion of the construction loan to a term loan, the non-current liabilities decreased by an amount of \$16.9 million, which corresponds to the amount reimbursed to the Corporation following the conversion. The increase in deficit attributable to owners and non-controlling interests deficit is due to the recognition of a net loss and comprehensive loss.

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

The Corporation owns a 50% interest in Mesgi'g Ugju's'n (MU) Wind Farm, L.P., which owns the Mesgi'g Ugju's'n wind project. For more information on this project, please refer to the "Development Projects" section. The Mesgi'g Ugju's'n subsidiary began its activities on March 21, 2014.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

	Year ended December 31, 2015	Period of 285 days ended December 31, 2014
Revenues	—	—
Adjusted EBITDA	—	(6)
Net loss	(9,992)	(17,064)
Other comprehensive loss	(1,639)	—
<b>Total comprehensive loss</b>	<b>(11,631)</b>	<b>(17,064)</b>
Net loss attributable to:		
Owners of the parent	(6,869)	(9,505)
Non-controlling interest	(3,123)	(7,559)
	<b>(9,992)</b>	<b>(17,064)</b>
Total comprehensive loss attributable to:		
Owners of the parent	(8,028)	(9,505)
Non-controlling interest	(3,603)	(7,559)
	<b>(11,631)</b>	<b>(17,064)</b>

For the year ended December 31, 2015, the net loss reflects a \$27.0 million realized loss on derivative financial instruments resulting from the settlement of the Mesgi'g Ugju's'n bond forward contracts upon closing of the financing for this project on September 28, which was partly offset by a \$16.8 million unrealized gain on derivative financial instruments resulting from the reversal of unrealized losses accumulated upon settlement of these bond forward contracts. The net loss for the year also reflects a \$3.4 million loss realized upon settlement of the Mesgi'g Ugju's'n foreign exchange forward contract used to secure the exchange rate on planned equipment purchases for the project. Concurrently, the exchange rate for the euro portion of the turbine supply contract for this project was fixed, resulting in a realized gain that offsets the realized loss on the foreign exchange forward contract, eliminating any further euro exposure.

For the corresponding periods of 2014, the recognition of a net loss was due mainly to an unrealized net loss on derivative financial instruments resulting from the decrease in benchmark interest rates since the beginning of the period.

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

	As at	December 31, 2015	December 31, 2014
Current assets		97,923	4,907
Non-current assets		100,966	11,807
		<b>198,889</b>	<b>16,714</b>
Current liabilities		6,535	21,688
Non-current liabilities		155,434	1,140
Equity (deficit) attributable to owners		45,302	(855)
Non-controlling interest deficit		(8,382)	(5,259)
		<b>198,889</b>	<b>16,714</b>

The increase in current assets is due in part to the increase in restricted cash from the proceed of a portion of the loan received in 2015. The increase in non-current assets is due mainly to construction spending for the project.

The increase in the non-current liabilities is due to the fact that on September 28, 2015, the Corporation announced the closing of a \$311.7 million non-recourse construction and term project financing comprised of three tranches and carrying interest rates of 2.41% to 4.28% (weighted average fixed rate of 4.20%). 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 projects, giving rise to a \$27.0 million realized loss on derivative financial instruments. This is equivalent to a fixed interest rate of approximately 4.97% on the loans and is well within the parameters of the economic model for these

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

projects. As at December 31, 2015, an amount of \$159.5 million of the \$311.7 million project financing was received in the fourth quarter.

The increase in equity attributable to owners is due mainly to a \$54.7 million equity investment made by the Corporation to fund the project's construction activities, partly offset by the recognition of a net loss and comprehensive loss during the year, which also explains the increase in the non-controlling interest deficit.

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

Since June 20, 2014, the Corporation has owned 50.01% of the common units and all of the preferred units of SM-1 L.P., which owns the SM-1 hydroelectric facility.

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

	Year ended December 31, 2015	Period of 195 days ended December 31, 2014
Revenues	10,562	4,821
Adjusted EBITDA	8,168	3,473
Net loss and comprehensive loss	(4,086)	(2,763)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(2,044)	(1,382)
Non-controlling interest	(2,042)	(1,381)
	(4,086)	(2,763)

For the year ended December 31, 2015, revenues and Adjusted EBITDA reflect the full-year contribution of the SM-1 hydroelectric facility acquired in June 2014. The recognition of a net loss is attributable mainly to the recording as an expense of the distributions on the preferred units held by the Corporation and the interest on the debentures held by the Corporation's partner.

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

	As at	December 31, 2015	December 31, 2014
Current assets		1,476	2,286
Non-current assets		134,873	138,217
		136,349	140,503
Current liabilities		6,148	6,283
Non-current liabilities		120,552	120,485
Equity attributable to owners		13,067	15,111
Non-controlling interests deficit		(3,418)	(1,376)
		136,349	140,503

For the year ended December 31, 2015, the decrease in non-current assets is due mainly to the depreciation and amortization for the year. As at December 31, 2015, the decrease of equity attributable to owners and the increase in the non-controlling interest deficit is attributable to the recognition of a net loss and comprehensive loss during the year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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## RISKS AND UNCERTAINTIES

The Corporation is exposed to various risks and uncertainties and has outlined below those that it considers material. Additional risks and uncertainties are discussed in the "Risk Factors" section of the Corporation's most recent *Annual Information Form* available on SEDAR at [www.sedar.com](http://www.sedar.com). There may also exist additional risks and uncertainties that are not presently known to the Corporation or that are currently believed to be immaterial that may adversely affect the Corporation's business.

### **Ability of the Corporation to Execute its Strategy for Building Shareholder Value**

The Corporation's strategy for building shareholder value is to acquire or develop high-quality facilities that generate sustainable cash flows and provide an attractive risk-adjusted return on invested capital, and to distribute a stable dividend. However, there is no certainty that the Corporation will be able to acquire or develop high-quality power production facilities at attractive prices to supplement its growth.

The successful execution of this strategy requires careful timing and business judgment as well as the resources to complete the development of power generating facilities. The Corporation may underestimate the costs necessary to bring power generating facilities into commercial operation or may be unable to quickly and efficiently integrate new acquisitions into its existing operations.

### **Ability to Raise Additional Capital and the State of the Capital Market**

Future development and construction of new facilities and the development of the Development Projects and Prospective Projects and other capital expenditures will be financed out of cash generated from the Corporation's Operating Facilities, borrowings or the issuance and sale of additional equity. To the extent that external sources of capital, including issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make necessary capital investments to construct existing or future projects or to maintain existing or future facilities would be impaired. There is no certainty that sufficient capital will be available on acceptable terms to fund further development or expansion. There are numerous renewable energy projects to be constructed in the coming years that will result in competition for capital. In addition, payment of dividends may impair the Corporation's ability to finance its ongoing and future projects.

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

### **Liquidity Risks Related to Derivative Financial Instruments**

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

### **Variability in Hydrology, Wind Regimes and Solar Irradiation**

The amount of electricity generated by the Corporation's hydroelectric facilities depends on the availability of water flows. There is no certainty that the long-term availability of such resources will remain unchanged. The Corporation's revenues may be significantly affected by events that impact the hydrological conditions of the Corporation's hydroelectric project facilities such as low and high water flows within the watersheds on which the Corporation's hydroelectric facilities are located. In the event of severe flooding, the Corporation's hydroelectric facilities may be damaged. Similarly, the amount of electricity generated by the Corporation's wind farms will depend on the availability of wind, which is naturally variable. A reduced or increased amount of wind at the location of one of the wind farms over an extended period may reduce the production from such facility and may reduce the Corporation's revenues and profitability. Finally, the amount of electricity generated by the Corporation's solar farms will depend on the availability of solar irradiation, which is naturally variable. Lower solar irradiation levels at any of the Corporation's solar farms over an extended period may reduce the production from such facilities and the Corporation's revenues and profitability.

### **Delays and Cost Overruns in the design and construction of projects**

Delays and cost overruns may occur in completing the construction of the Development Projects, the Prospective Projects and future projects that the Corporation will undertake. A number of factors that could cause such delays or cost overruns include, without limitation, permitting delays, construction pricing escalation, changing engineering and design requirements, the performance of contractors, labour disruptions, adverse weather conditions and the availability of financing. Even when complete, a facility may not operate as planned due to design or manufacturing flaws, which may not all be covered by warranty.

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

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Mechanical breakdown could occur in equipment after the period of warranty has expired, resulting in loss of production as well as the cost of repair. In addition, if the Development Projects are not brought into commercial operation within the delay stipulated in their PPA, the Corporation may be subject to penalty payments or the counterparty may be entitled to terminate the related PPA.

## **Health, Safety and Environmental Risks**

The ownership, construction and operation of the Corporation's power generation assets carry an inherent risk of liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination, potential penalties for contravention of health, safety and environmental laws, licenses, permits and other approvals and potential civil liability. Compliance with health, safety and environmental laws (and any future changes) and the requirements of licenses, permits and other approvals remain material to the Corporation's business. The Corporation has incurred and will continue to incur significant capital and operating expenditures to comply with health, safety and environmental laws and to obtain and comply with licenses, permits and other approvals and to assess and manage its potential liability exposure. Nevertheless, the Corporation may become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters. The occurrence of any of these events or any changes, additions to or more rigorous enforcement of, health, safety and environmental laws, licenses, permits or other approvals could have a significant impact on the Corporation's operations and/or give rise to additional material and unanticipated expenditures. As a result, no assurances can be given that additional environmental and workers' health and safety issues relating to presently known or unknown matters will not require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) material to its business and operations.

## **Uncertainties Surrounding the Development of New Facilities**

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

## **Obtainment of Permits**

The Corporation does not currently hold all the approvals, licenses and permits required for the construction and operation of the Development Projects or the Prospective Projects, including environmental approvals and permits necessary to construct and operate the Development Projects or the Prospective Projects. The failure to obtain or delays in obtaining all necessary licenses, approvals or permits, including renewals thereof or modifications thereto, could result in construction of the Development Projects or the Prospective Projects being delayed or not being completed or commenced. There can be no assurance that any one Prospective Project will result in any actual operating facility. In addition, delays may occur in obtaining necessary government approvals required for future power projects.

From time to time, and in order to secure long lead times required for ordering equipment, the Corporation may place orders for equipment and make deposits thereon or advance projects prior to obtaining all requisite permits and licences. The Corporation takes such actions only when it reasonably believes that such licences or permits will be forthcoming in due course prior to the requirement to expend the full amount of the purchase price. However, any delay in permitting could adversely affect the Corporation.

Environmental permits to be issued in connection with any of the Development Projects or the Prospective Projects may contain conditions that need to be satisfied prior to obtaining a PPA, to start construction, during construction and during and after the operation of the Development Projects. It is not possible to predict the conditions imposed by such permits or the cost of any mitigating measures required by such permits.

## **Variability of Installation Performance and Related Penalties**

The ability of the Corporation's facilities to generate the maximum amount of power that can be sold to Hydro-Québec, BC Hydro and the OPA or other purchasers of electricity under PPAs is an important determinant of the Corporation's revenues. If one of the Corporation's facilities delivers less than the required quantity of electricity in a given contract year or is otherwise in default under its PPA, the Corporation may have to pay a penalty to the relevant power purchaser, which could adversely affect its revenues and profitability.

## **Equipment Failure or Unexpected Operations and Maintenance Activity**

The Corporation's facilities are subject to the risk of equipment failure resulting from the deterioration of the asset from use or age, latent defect and design or operator error, among other things. To the extent that a facility's equipment requires longer

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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than forecast downtimes for maintenance and repair, or suffers power generation disruptions for other reasons, the Corporation's business, operating results, financial condition or prospects could be adversely affected.

## **Interest Rate Fluctuations and Refinancing Risk**

Interest rate fluctuations are of particular concern to a capital-intensive industry such as electricity generation. The Corporation faces interest rate and debt refinancing risk in respect of floating-rate bank credit facilities used for construction and long-term financings. The Corporation's ability to refinance debt on favourable terms is dependent on debt capital market conditions, which are inherently variable and difficult to predict.

## **Financial Leverage and Restrictive Covenants Governing Current and Future Indebtedness**

The Corporation's operations and those of its subsidiaries are subject to contractual restrictions contained in the instruments governing any of their current and future indebtedness. The degree to which the Corporation and its subsidiaries are leveraged could have important consequences to shareholders, including: (i) the Corporation's and its subsidiaries' ability to obtain additional financing for working capital, capital expenditures, acquisitions or other project developments in the future may be limited; (ii) a significant portion of the Corporation's and its subsidiaries' cash flows from operations may be dedicated to the payment of the principal of and interest on their indebtedness, thereby reducing funds available for future operations; (iii) some of the Corporation's and its subsidiaries' borrowings may carry variable interest rates, which exposes the Corporation and its subsidiaries to the risk of increasing interest rates; and (iv) the Corporation and its subsidiaries may be more vulnerable to economic downturns and be limited in their ability to withstand competitive pressures.

The Corporation and its subsidiaries are subject to operating and financial restrictions through covenants in certain loan and security agreements. These restrictions prohibit or limit the Corporation's and its subsidiaries' ability to, among other things, incur additional debt, provide guarantees for indebtedness, create liens, dispose of assets, liquidate, dissolve, amalgamate, consolidate or effect any corporate or capital reorganization, make distributions or pay dividends, issue any equity interests and create subsidiaries. These restrictions may limit the Corporation's and its subsidiaries' ability to obtain additional financing, withstand downturns in the Corporation's and its subsidiaries' business and take advantage of business opportunities. Moreover, the Corporation and its subsidiaries may be required to seek additional debt financing on terms that include more restrictive covenants, require repayment on an accelerated schedule, or impose other obligations that limit the Corporation's or its subsidiaries' ability to grow the business, acquire assets or take other actions the Corporation or its subsidiaries might otherwise consider appropriate or desirable.

## **Possibility That the Corporation May Not Declare or Pay a Dividend**

Holders of Common Shares, Series A Preferred Shares and Series C Preferred Shares do not have a right to dividends on such shares unless such dividends are declared by the Board of Directors. The declaration of dividends is at the discretion of the Board of Directors even if the Corporation has sufficient funds, net of its liabilities, to pay such dividends.

The Corporation may not declare or pay a dividend if the Corporation's cash available for distribution is not sufficient or if there are reasonable grounds to believe that (i) the Corporation is, or would after the dividend payment be, unable to pay its liabilities as they become due; or (ii) the realizable value of the Corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares.

## **Ability to Secure New Power Purchase Agreements or Renew Any Power Purchase Agreement**

Securing new PPAs, which is a key component of the Corporation's growth strategy, is a risk factor in light of the competitive environment in which the Corporation operates. The Corporation expects to continue to enter into PPAs for the sale of its power, which PPAs are mainly obtained through participation in competitive requests for proposals. During these processes, the Corporation faces competitors ranging from large utilities to small independent power producers, some of which have significantly greater financial and other resources than the Corporation. There is no assurance that the Corporation will be selected as power supplier following any particular request for proposals in the future or that existing PPAs will be renewed or will be renewed on equivalent terms and conditions upon the expiry of their respective terms.

## **Foreign Market Growth and Development risks**

The Corporation may, in connection with any international expansion of its activities, face risks related to (i) its ability to effectively consummate future acquisitions, create new partnerships and develop, construct and operate projects in an unfamiliar regulatory and procurement market, (ii) competing with more established competitors and (iii) foreign exchange fluctuations.

## **Cyber Security**

The Corporation is dependent on various information technologies to carry out multiple business activities. A successful cyber intrusion, such as, and not limited to, unauthorized access, malicious software or other violations on the system that control generation and transmission at any of our offices or facilities could severely disrupt or otherwise affect business operations or diminish competitive advantages. These attacks on our information base systems through theft, alteration or destruction could

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

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generate unexpected expenses to investigate and repair security breaches or system damage and could lead to litigation, fines, other remedial action, heightened regulatory scrutiny and damage to our reputation. A breach of our cyber/data security measures could have a material adverse effect on the Corporation's business, operations, financial condition and results of operations.

## CRITICAL ACCOUNTING ESTIMATES

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

Changes made during the year ended December 31, 2015, are described in the "Accounting Changes" section. Other significant accounting policies are listed in Note 3 of the Corporation's audited consolidated financial statements for the year ended December 31, 2015.

## ACCOUNTING CHANGES

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

#### IAS 1 - Presentation of Financial Statements

The IASB issued Disclosure Initiative (Amendments to IAS 1), which addressed concerns expressed about some of the existing presentation and disclosure requirements in IAS 1 and ensured that entities are able to use judgement when applying those requirements. In addition, the amendments clarified the requirements in other comprehensive income. Those amendments must be applied for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Corporation has reviewed this standard and has concluded that it will not have a significant impact 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. Early adoption is permitted. The Corporation has reviewed this standard and has concluded that it will not have a significant impact on its consolidated financial statements.

#### 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, 2018, with early adoption permitted. The Corporation is evaluating the impact this standard is expected to have on its consolidated financial statements.

#### IFRS 9 - Financial Instruments (2014)

In July 2014, the IASB issued the complete IFRS 9 (2014), Financial Instruments ("IFRS 9 (2014)"). IFRS 9 (2014) differs in some regards from IFRS 9 (2013) which the Corporation early adopted effective October 1, 2014. IFRS 9 (2014) includes updated guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018, and must be applied retrospectively with some exemptions. Early



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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adoption is permitted. The Corporation is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

## **IFRS 16 Leases (IFRS 16)**

On January 13, 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Corporation is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

## **SUBSEQUENT EVENTS**

### **Refinancing of Stardale long-term debt**

On February 22, 2016, Stardale has renegotiated its long-term debt to increase its borrowing to \$109.0 million and to reduce its applicable credit margin rate by 0.625%.

### **Revolving term credit facility**

On January 18, 2016, the Corporation executed an amending agreement to extend its revolving term credit facility from 2019 to 2020.

# Responsibility for Financial Reporting

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

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

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

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

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

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

These consolidated financial statements were approved by the Corporation’s Board of Directors. The Corporation’s consolidated financial statements were audited by its independent auditor, Deloitte LLP, in accordance with **Canadian generally accepted auditing standards** and on the shareholders’ behalf. Deloitte LLP enjoy full and unrestricted access to the Audit Committee.

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

*[s] Jean Perron*  
Jean Perron, CPA, CA  
Chief Financial Officer

Innergex Renewable Energy Inc.

Longueuil, Canada, February 24, 2016



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Innergex Renewable Energy Inc.

We have audited the accompanying consolidated financial statements of Innergex Renewable Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of earnings, consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Innergex Renewable Energy Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP*<sup>1</sup>

Montreal, Quebec  
February 24, 2016

<sup>1</sup> CPA auditor, CA, public accountancy permit No. A109248

# CONSOLIDATED STATEMENTS OF EARNINGS

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

		Year ended December 31	
		2015	2014
	Notes		
<b>Revenues</b>		246,869	241,834
<b>Expenses</b>			
Operating	6	40,938	41,512
General and administrative		14,188	15,064
Prospective projects		8,005	5,696
Earnings before finance costs, income taxes, depreciation, amortization, impairment of project development costs, other net expenses, share of (earnings) loss of joint ventures and unrealized net (gain) loss on derivative financial instruments		183,738	179,562
Finance costs	7	83,130	86,537
Other net expenses	8	116,764	7,797
Earnings (loss) before income taxes, depreciation, amortization, impairment of project development costs, share of (earnings) loss of joint ventures and unrealized net (gain) loss on derivative financial instruments		(16,156)	85,228
Depreciation	6, 18	53,261	53,145
Amortization	6, 19	22,217	20,947
Impairment of project development costs	20	51,719	—
Share of (earnings) loss of joint ventures	9	(1,562)	701
Unrealized net (gain) loss on derivative financial instruments	10	(81,368)	121,685
Loss before income taxes		(60,423)	(111,250)
Recovery of income tax			
Current	11	3,122	3,014
Deferred	11	(15,162)	(29,886)
		(12,040)	(26,872)
<b>Net loss</b>		<b>(48,383)</b>	<b>(84,378)</b>
Net loss attributable to:			
Owners of the parent		(30,301)	(54,853)
Non-controlling interests		(18,082)	(29,525)
		(48,383)	(84,378)
Weighted average number of common shares outstanding (in 000s)		12	98,341
Basic net loss per share (\$)		12	(0.37)
Diluted weighted average number of common shares outstanding (in 000s)		12	98,551
Diluted net loss per share (\$)		12	(0.37)

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Notes	Year ended December 31	
		2015	2014
Net loss		(48,383)	(84,378)
Items of comprehensive income (loss) that will be subsequently reclassified to earnings:	27		
Foreign exchange gain on translation of self-sustaining foreign subsidiaries		1,689	642
Related deferred tax		(223)	(85)
Foreign exchange (loss) on the designated portion of the US dollar denominated debt used as hedge on the investment in self-sustaining foreign subsidiaries		(1,610)	(648)
Related deferred tax		212	85
Change in fair value of hedging instruments		(2,267)	(343)
Related deferred tax		590	90
Share of change in fair value of hedging instruments of joint venture		64	—
Related deferred tax		(16)	—
Share of non-controlling interests in change in fair value of hedging instruments		(414)	—
Related deferred tax		(18)	—
Other comprehensive loss		(1,993)	(259)
<b>Total comprehensive loss</b>		<b>(50,376)</b>	<b>(84,637)</b>
Other comprehensive loss attributable to:			
Owners of the parent		(1,561)	(259)
Non-controlling interests		(432)	—
		(1,993)	(259)
<b>Total comprehensive loss attributable to:</b>			
Owners of the parent		(31,862)	(55,112)
Non-controlling interests		(18,514)	(29,525)
		(50,376)	(84,637)

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

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

As at		December 31, 2015	December 31, 2014
	Notes		
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		40,663	54,609
Restricted cash and short-term investments	15	312,720	85,807
Accounts receivable	16	37,073	35,271
Reserve accounts	17	1,315	651
Income tax receivable	11	4	93
Derivative financial instruments	10	1,209	2,948
Prepaid and others		4,363	5,269
		397,347	184,648
<b>Non-current assets</b>			
Reserve accounts	17	41,521	40,684
Property, plant and equipment	18	2,174,222	1,895,789
Intangible assets	19	472,271	487,312
Project development costs	20	—	61,020
Investments in joint ventures	9	9,327	14,536
Derivative financial instruments	10	2,768	3,968
Deferred tax assets	11	15,356	14,025
Goodwill	21	8,269	8,269
Other long-term assets		7,222	5,764
		3,128,303	2,716,015

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

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

As at		December 31, 2015	December 31, 2014
	Notes		
<b>Liabilities</b>			
<b>Current liabilities</b>			
Dividends payable to shareholders		17,892	16,882
Accounts payable and other payables	22	95,466	45,607
Income tax payable	11	1,234	1,408
Derivative financial instruments	10	15,337	104,095
Current portion of long-term debt	23	54,995	33,799
Current portion of other liabilities	24	246	244
		185,170	202,035
<b>Non-current liabilities</b>			
Construction holdbacks		—	10,818
Derivative financial instruments	10	56,348	48,669
Accrual for acquisition of long-term assets		—	25,339
Long-term debt	23	2,160,438	1,610,800
Other liabilities	24	13,429	13,808
Liability portion of convertible debentures	25	93,430	80,018
Deferred tax liabilities	11	147,931	162,303
		2,656,746	2,153,790
<b>Shareholders' equity</b>			
Common share capital	26 a)	108,541	62,224
Contributed surplus from reduction of capital on common shares	26 b)	775,413	784,482
Preferred shares	26 c)	131,069	131,069
Share-based payment	26 d)	2,174	2,050
Equity portion of convertible debentures	25	1,877	1,340
Deficit		(567,848)	(466,336)
Accumulated other comprehensive loss	27	(1,576)	(15)
Equity attributable to owners		449,650	514,814
Non-controlling interests	29.2	21,907	47,411
Total shareholders' equity		471,557	562,225
		3,128,303	2,716,015

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

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

For the year ended December 31, 2015	Equity attributable to owners										
	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 loss	Total	Non-controlling interests	Total shareholders' equity
Balance January 1, 2015	100,672	62,224	784,482	131,069	2,050	1,340	(466,336)	(15)	514,814	47,411	562,225
Net loss	—	—	—	—	—	—	(30,301)	(1,561)	(30,301)	(18,082)	(48,383)
Other items of comprehensive loss	—	—	—	—	—	—	(30,301)	(1,561)	(31,862)	(432)	(1,993)
Total comprehensive loss	—	—	—	—	—	—	(30,301)	(1,561)	(31,862)	(18,514)	(50,376)
Common shares issued through dividend reinvestment plan	758	8,172	(9,069)	—	—	—	—	—	8,172	—	8,172
Buyback of common shares	(1,190)	(998)	(9,069)	—	—	—	(2,282)	—	(12,349)	—	(12,349)
Share-based payment	—	—	—	—	192	—	—	—	192	—	192
Share options exercised	45	462	—	—	(68)	—	—	—	394	—	394
Convertible debentures converted into common shares	3,653	38,681	—	—	—	(648)	891	—	38,924	—	38,924
Redemption of convertible debentures	—	—	—	—	—	(692)	951	—	259	—	259
Equity portion of convertible debentures issued (Net of \$673 of deferred income taxes)	—	—	—	—	—	1,877	—	—	1,877	—	1,877
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	—	(7,448)	(7,448)
Investments from non-controlling interests	—	—	—	—	—	—	—	—	—	458	458
Dividends declared on common shares	—	—	—	—	—	—	(63,646)	—	(63,646)	—	(63,646)
Dividends declared on preferred shares	—	—	—	—	—	—	(7,125)	—	(7,125)	—	(7,125)
Balance December 31, 2015	103,938	108,541	775,413	131,069	2,174	1,877	(567,848)	(1,576)	449,650	21,907	471,557

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



# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

For the year ended December 31, 2014	Equity attributable to owners										
	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							(54,853)		(54,853)	(29,525)	(84,378)
Other items of comprehensive loss								(259)	(259)		(259)
Total comprehensive loss	—	—	—	—	—	—	(54,853)	(259)	(55,112)	(29,525)	(84,637)
Common shares issued on June 20, 2014; private placement (Note 5)	4,027	41,720							41,720		41,720
Issuance fees		(60)							(60)		(60)
Common shares issued through dividend reinvestment plan	990	10,190							10,190		10,190
Share-based payment					244				244		244
Distributions to non-controlling interests									—	(6,798)	(6,798)
Investments from non-controlling interests									—	2,305	2,305
Dividends declared on common shares							(59,549)		(59,549)		(59,549)
Dividends declared on preferred shares							(7,125)		(7,125)		(7,125)
Balance December 31, 2014	100,672	62,224	784,482	131,069	2,050	1,340	(466,336)	(15)	514,814	47,411	562,225

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

		Year ended December 31	
		2015	2014
	Notes		
<b>Operating activities</b>			
Net loss		(48,383)	(84,378)
Items not affecting cash:			
Depreciation	18	53,261	53,145
Amortization	19	22,217	20,947
Impairment of project development costs	20	51,719	—
Share of (earnings) loss of joint ventures	9	(1,562)	701
Unrealized net (gain) loss on derivative financial instruments	10	(81,368)	121,685
Inflation compensation interest	7	2,937	6,699
Amortization of financing fees	7	753	895
Accretion of long-term debt and convertible debentures	7	1,184	1,016
Accretion expenses on other liabilities	7	609	621
Share-based payment		192	244
Deferred income taxes		(15,162)	(29,886)
Effect of exchange rate fluctuations		1,205	701
Others		425	180
Interest on long-term debt and convertible debentures	7	76,752	76,523
Interest paid		(71,742)	(74,474)
Realized gain on contingent considerations		(3,447)	—
Distributions received from joint ventures		6,859	7,136
Current income tax expense		3,122	3,014
Net income taxes paid		(3,289)	(3,886)
		(3,718)	100,883
Changes in non-cash operating working capital items	28	8,275	(13,218)
		4,557	87,665
<b>Financing activities</b>			
Dividends paid on common shares		(54,464)	(48,127)
Dividends paid on preferred shares		(7,125)	(7,125)
Distributions to non-controlling interests		(7,448)	—
Investments from non-controlling interests	29.2	—	5
Increase of long-term debt		1,241,951	379,901
Repayment of long-term debt		(665,085)	(120,590)
Payment of deferred financing costs		(13,842)	(2,580)
Payment of other liabilities	24	(244)	(361)
Payment for redemption of convertible debentures	25	(41,591)	—
Net proceeds from issuance of convertible debentures	25	95,527	—
Payment for buyback of common shares	26	(12,349)	—
Payment of issuance cost of common and preferred shares		—	(82)
Proceeds from exercise of share options	26	394	—
		535,724	201,041

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Notes	Year ended December 31	
		2015	2014
<b>Investing activities</b>			
Business acquisition	5	—	(38,368)
Increase of restricted cash and short-term investments		(226,913)	(36,062)
Net funds (invested into) withdrawn from the reserve accounts	17	(1,336)	6,538
Additions to property, plant and equipment		(296,153)	(205,460)
Additions to project development costs		(29,107)	(24,955)
Withdrawals from joint ventures		—	2,259
(Additions to) reductions of other long-term assets		(1,324)	27,480
Proceeds from disposal of property, plant and equipment		39	166
		(554,794)	(268,402)
Effects of exchange rate changes on cash and cash equivalents		567	38
Net (decrease) increase in cash and cash equivalents		(13,946)	20,342
Cash and cash equivalents, beginning of year		54,609	34,267
<b>Cash and cash equivalents, end of year</b>		<b>40,663</b>	<b>54,609</b>
<i>Cash and cash equivalents is comprised of:</i>			
Cash		22,898	32,920
Short-term investments		17,765	21,689
		40,663	54,609

Additional information is presented in Note 28.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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## 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 consolidated financial statements were approved by the Board of Directors on February 24, 2016.

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

## 1. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS").

The 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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

## 2. APPLICATION OF NEW AND REVISED IFRS

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

#### IAS 1 - Presentation of Financial Statements

The IASB issued Disclosure Initiative (Amendments to IAS 1), which addressed concerns expressed about some of the existing presentation and disclosure requirements in IAS 1 and ensured that entities are able to use judgement when applying those requirements. In addition, the amendments clarified the requirements in other comprehensive income. Those amendments must be applied for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Corporation has reviewed this standard and has concluded that it will not have a significant impact 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. Early adoption is permitted. The Corporation has reviewed this standard and has concluded that it will not have a significant impact on its consolidated financial statements.

#### 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, 2018, with early adoption permitted. The Corporation is evaluating the impact this standard is expected to have on its consolidated financial statements.

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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model by introducing a new expected credit loss model for calculating impairment. The mandatory effective date of IFRS 9 (2014) is for annual periods beginning on or after January 1, 2018, and must be applied retrospectively with some exemptions. Early adoption is permitted. The Corporation is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

## **IFRS 16 Leases (IFRS 16)**

On January 13, 2016, the IASB issued IFRS 16 that provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretive guidance. Significant changes were made to lessee accounting with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). In contrast, IFRS 16 does not include significant changes to the requirements for lessors. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Corporation is currently assessing the impact of the adoption of this standard on its consolidated financial statements.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### ***Principles of consolidation***

The consolidated financial statements include the accounts of the Corporation, and the subsidiaries that it controls. Control exists where the Corporation has the power over the subsidiary, where the Corporation is exposed or has rights to variable returns from its involvement with the subsidiary and where the Corporation has the ability to use its power to affect its returns. Subsidiaries are consolidated from the effective date of acquisition up to the effective date of disposal or loss of control.

### ***Investments in joint ventures***

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the joint venture. When the Corporation's share of losses of a joint venture exceeds the Corporation's interest in that joint venture (which includes any long-term interest that, in substance, forms part of the Corporation's net investment in the joint venture), the Corporation discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Corporation's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Corporation's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in earnings or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Corporation's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Corporation discontinues the use of the equity method from the date when the investment ceases to be a joint venture. When the Corporation retains an interest in the former joint venture and the retained interest is a financial asset, the Corporation measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the joint venture at the date the

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Corporation reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

## ***Investments in joint operations***

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Corporation undertakes its activities under joint operations, the Corporation as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Corporation accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Corporation transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Corporation is considered conducting the transaction with other parties to the joint operation and profits and losses resulting from the transactions are recognized in the Corporation's consolidated financial statements only to the extent of the other parties' interests in the joint operation.

When the Corporation transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Corporation does not recognize its share of the gains and losses until it resells those assets to a third party.

## ***Business combinations***

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

## ***Cash and cash equivalents***

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

## ***Restricted cash and short-term investments***

The Corporation holds restricted cash and short-term investments as required under some of its project financings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

## **Reserve accounts**

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

The reserve accounts are currently invested in cash or in short-term investments having maturities of three months or less as well as in Government-backed securities.

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

## **Property, plant and equipment**

Property, plant and equipment are comprised mainly of hydroelectric facilities, wind farm facilities and a solar facility that are either in operation or under construction. They are recorded at cost less accumulated depreciation and accumulated impairment losses if any.

Property, plant and equipment are depreciated using the straight-line method over the lesser of (i) the estimated useful lives of the assets or (ii) the period for which the Corporation owns the rights to the assets. Improvements that increase or extend the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred. Property, plant and equipment are not depreciated until they are ready for their intended use.

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

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The total costs of those assets, including the addition of borrowing costs, shall not exceed the recoverable amount of the assets.

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

All other borrowing costs are recognized in earnings in the period in which they are incurred.

The useful life used to calculate depreciation is as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Type of property, plant and equipment	Ending years of depreciation period	Useful life for the depreciation period
Hydroelectric facilities	2019 to 2090	8 to 75 years
Wind farm facilities	2021 to 2037	14 to 25 years
Solar facility	2032 to 2037	20 to 25 years
Other equipments	2016 to 2024	3 to 10 years

## Leases

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

## Intangible assets

Intangible assets consist of various permits, licenses and agreements. Intangibles assets are amortized using the straight-line method over a period ending on the maturity date of the permits, licenses or agreements of each facility. The estimated useful life reflects the respective Power Purchase Agreements' ("PPA") renewable rights periods, since it is the Corporation's intention to exercise its option to renew its PPAs. They are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization starts when the related facility becomes ready for its intended use.

Intangible assets related to facilities under construction are not amortized until the related facilities are ready for their intended use. Intangible assets also include the cost of extended warranties for wind farm equipments; these costs are amortized over the warranty period.

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

The useful life used to calculate amortization is as follows:

Intangible assets related to:	Ending years of amortization period	Useful life for the amortization period
Hydroelectric facilities	2016 to 2081	4 to 75 years
Wind farm facilities	2026 to 2028	19 to 20 years
Solar facility	2032	20 years
Extended warranties for wind turbines	2016	2 to 3 years

## Project development costs

Project development costs represent costs incurred for the acquisition of prospective projects and for the development of hydroelectric, wind farm and solar sites. They are recorded at cost less impairment losses. Development phase starts when a public announcement is made by a utility that a prospective project has been selected to be awarded a power purchase agreement. These costs are transferred to property, plant and equipment or intangible assets when construction starts. Current costs for prospective projects are expensed as incurred and costs of a project under development are written off in the year if the project is abandoned. Borrowing costs directly attributable to the acquisition or development are capitalized as project development costs.

## Impairment of property, plant and equipment, intangible assets and project development costs other than goodwill

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

## **Goodwill**

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

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

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

## **Other long-term assets**

Other long-term assets include security deposits under various agreements and long-term receivables.

## **Accrual for acquisition of long-term assets**

The accrual for acquisition of long-term assets is defined as long-term debt commitments that have been secured and that will be drawn upon to finance the Corporation's projects currently under development or construction.

## **Provisions and asset retirement obligations**

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

Asset retirement obligations are recorded as liabilities when those obligations are incurred and are measured as the present value, if a reasonable estimate of the expected costs to settle the liability can be determined, discounted at a current pre-tax rate specific to the liability. In subsequent years, the liability is adjusted for changes resulting from the passage of time

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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and revisions to either the timing or the amount of the original estimate of the undiscounted cash flows. The accretion of the liability to its fair value as a result of the passage of time is charged to earnings while changes resulting from the revisions to either the timing, the amount of the original estimate of the undiscounted cash flows or a change of the discount rate are accounted for as part of the carrying amount of the related long-lived asset. The carrying amount of the asset retirement obligations is reviewed quarterly to reflect current estimates and changes in the discount rate.

## **Financial instruments**

The Corporation initially recognizes financial assets on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Corporation classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

### (i) Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and/or interest.

The Corporation currently classifies its Cash and cash equivalents, restricted cash and short-term investments, accounts receivable, and reserve accounts as assets measured at amortized cost.

### (ii) Financial assets measured at fair value

These assets are measured at fair value and changes therein, including any interest or dividend income, are recognized in net earnings unless hedge accounting is used in which case the changes are recognized in comprehensive income.

The Corporation currently classifies its derivative financial instruments as financial assets measured at fair value.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial liabilities are classified into the following categories.

### (i) Financial liabilities measured at amortized cost

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

The Corporation currently classifies its dividends payable to shareholders, accounts payables and other payables as liabilities as measured at amortized cost.

### (ii) Financial liabilities measured at fair value

Financial liabilities at fair value are initially recognized at fair value and are re-measured at each reporting date with any changes therein recognized in net earnings unless hedge accounting is used in which case the changes are recognized in comprehensive income.

The Corporation currently classifies its derivative financial instruments as a financial liability measured at fair value.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The Corporation recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## ***Impairment of financial assets***

The Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Impairment losses are recorded in other net expenses (revenues) if applicable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of earnings.

## ***Hedging relationships***

The Corporation enters into derivative financial instruments to hedge its market risk exposures. On initial designation of new hedges, since October 1, 2014, the Corporation formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net earnings.

Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in net earnings as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

## ***Cash flow hedges***

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect net earnings, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in accumulated other comprehensive income as part of equity. The amount recognized in other comprehensive income is removed and included in net earnings under the same line item in the consolidated statement of earnings as the hedged item, in the same period that the hedged cash flows affect net earnings. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income remains in accumulated other comprehensive income until the forecasted transaction affects net earnings. If the forecasted transaction is no longer expected to occur, then the balance in accumulated other comprehensive income is recognized immediately in net earnings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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## ***Net investment in foreign operation hedges***

The Corporation applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and Corporation's functional currency (Canadian dollars).

Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the accumulated other comprehensive income. Any ineffective portion of changes in the hedging instruments is recognized directly in net earnings. When the hedged part of a net investment is disposed of, the relevant amount in the accumulated other comprehensive income is transferred to the statement of earnings as part of the profit or loss on disposal.

## ***Embedded derivatives***

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

## ***Non-controlling interests***

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

## ***Revenue recognition***

Revenues are recognized, on an accrual basis, upon delivery of electricity at rates provided for under the PPAs entered into with the purchasing utilities or upon compensations from insurance or suppliers for loss of revenues when it is virtually certain that the claim will be received.

## ***Government assistance***

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

The Corporation is entitled to subsidies under the EcoEnergy program. The subsidies are equal to 1¢ per kWh produced at the Ashlu Creek, Fitzsimmons Creek, Douglas Creek, Fire Creek, Stokke Creek, Tipella Creek, Lamont Creek, Upper Stave River, Magpie Limited Partnership and Umbata Falls hydro facilities and at the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms for the first 10 years following commissioning of each facility. As per the electricity purchase agreements, the Corporation must transfer 75% of the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms subsidies to Hydro-Québec. Gross EcoEnergy subsidies of \$13,103 (\$13,886 in 2014) are included in the revenues and the 75% payable to Hydro-Québec for the Carleton, Baie-des-Sables and L'Anse-à-Valleau wind farms are included in the operating expenses.

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

## ***Share-based payment***

The Corporation measures equity-settled stock option awards using the fair value method. Expense is measured at the grant date at the fair value of the award and is recognized over the vesting period based on the Corporation's estimate of the number of options that will eventually vest. Each equity-settled stock option award that vests in installments is accounted for as a separate award with its own distinct fair value measurement. The fair value of options is amortized to earnings over the vesting period with an offset to share-based payment in equity. For options that are forfeited before vesting, the

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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compensation expense that had previously been recognized and the offset to share-based payment in equity are reversed. When options are exercised, the corresponding share-based payment in equity and the proceeds received by the Corporation are credited to share capital.

## **Foreign currency translation**

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

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

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

## **Income taxes**

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

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

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

Deferred tax is not recognized in respect of subsidiaries for the temporary differences between the carrying amounts of the investments and the tax basis, unless such differences are expected to reverse in the foreseeable future.

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

## **Earnings (loss) per share**

Basic earnings (loss) per share are computed by dividing net earnings available to common shareholders by the weighted average number of shares outstanding during the year.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### Significant estimates and assumptions

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

### Critical judgments and estimates

#### *Fair Value of Financial Instruments*

Certain financial instruments, such as derivative financial instruments, are carried in the consolidated statements of financial position at fair value, with changes in fair value reflected in earnings unless hedge accounting is used in which case the changes are recognized in comprehensive income. Fair values of some financial instruments are estimated by using valuation techniques using several assumptions such as interest rate, credit spread and risk.

#### *Useful Lives of Property, Plant and Equipment and Intangible assets*

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

#### *Goodwill Impairment*

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

#### *Impairment of Property, plant and equipment, Intangible assets and Project development costs*

The Corporation makes a number of estimates when calculating fair value using discounted future cash flows or other valuation methods. These estimates include the assumed growth rates for future cash flows, the number of years used in the cash flow model, and the discount rate. The likelihood of being able to develop future projects is also assessed in regards of the competitive business environment and the willingness expressed by the governmental authorities of procuring additional sources of energy.

#### *Business acquisition fair value*

The Corporation makes a number of estimates when allocating fair values to the assets and liabilities acquired in a business acquisition. Fair values are estimated by using valuation techniques using several assumptions such as production, earnings and expenses, interest rate and discount rate.

#### *Structured entity*

Based on the contractual arrangements between the Corporation and the other respective partner, the Corporation concluded that it has control over Kwoiek Creek Resources L.P and Mesgi'g Ujju's'n (MU) Wind Farm L.P.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## *Asset retirement obligations*

The Corporation makes a number of estimates when calculating fair value of the amount of obligation using discounted rate. The obligation is measured at its present value using a current market-based, risk adjusted interest rate.

## *Hedging*

The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

## *Income Taxes*

The calculation of income taxes requires judgment in interpreting tax rules and regulations. The Corporation's tax filings are also subject to audits, the outcome of which could change the amount of current and deferred tax assets and liabilities. The Corporation believes that it has sufficient amounts accrued for outstanding tax matters based on the information that currently is available. Deferred tax assets and liabilities require management's judgment in determining the amounts to be recognized. In particular, judgment is required when assessing the timing of reversal of temporary differences to which future income tax rates are applied. Further, the amount of deferred tax assets, which is limited to the amount that is probable to be realized, is estimated with consideration given to the timing, sources and amounts of future taxable profit.

## 5. BUSINESS ACQUISITION

### 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 final purchase price of the SM-1 facility was \$80,088 plus assumption of \$37,455 in non-recourse, project-level debt carrying an effective fixed interest rate of 3.30% and maturing in 2025 (see note 23).

The final purchase price of \$80,088, was paid as follows: \$38,368 in cash (including holdback of \$467) 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.

The final purchase price has been calculated as follows:

Cash	38,368
Shares issued	41,720
<b>Total purchase price</b>	<b>80,088</b>

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The following table reflects the final purchase price allocation:

	Preliminary purchase price allocation	Subsequent adjustments	Final purchase price allocation
Reserve account	259	—	259
Property, plant and equipment	115,470	(6,591)	108,879
Intangible assets	18,807	6,591	25,398
Current liabilities	(506)	—	(506)
Long-term debt	(37,455)	—	(37,455)
Deferred tax liabilities	(16,487)	—	(16,487)
<b>Net assets acquired</b>	<b>80,088</b>	<b>—</b>	<b>80,088</b>

The transaction costs relating to this acquisition have been expensed as transaction costs of the business combination in accordance with IFRS 3 (see note 8).

If the acquisition had taken place on January 1, 2014, the consolidated revenues and net loss for the year ended December 31, 2014 would have been \$247,129 and \$83,892 respectively.

The amounts of revenues and net loss of SM-1 LP since June 20, 2014 included in the consolidated statement of earnings are \$4,821 and \$2,763 respectively for the 195 days ended December 31, 2014.

## 6. OPERATING EXPENSES

	Year ended December 31	
	2015	2014
Salaries	4,168	3,607
Insurance	2,601	2,400
Operation and maintenance	18,054	18,210
Property taxes and royalties	16,115	17,295
	<b>40,938</b>	<b>41,512</b>

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

## 7. FINANCE COSTS

	Year ended December 31	
	2015	2014
Interest on long-term debt and on convertible debentures	76,752	76,523
Inflation compensation interest	2,937	6,699
Amortization of financing fees	753	895
Accretion of long-term debt and convertible debentures	1,184	1,016
Accretion expenses on other liabilities	609	621
Others	895	783
	<b>83,130</b>	<b>86,537</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8. OTHER NET EXPENSES

	Year ended December 31	
	2015	2014
Transaction costs	261	521
Realized loss on derivative financial instruments	119,557	8,366
Realized loss on foreign exchange	1,403	589
Realized gain on contingent considerations (note 24 a)	(3,447)	—
Other net revenues	(1,010)	(2,045)
Loan impairment	—	366
	116,764	7,797

## 9. INVESTMENTS IN JOINT VENTURES

### 9.1 Details of material joint ventures

Details of the Corporation's material joint ventures at the end of the reporting periods are as follows:

Name of joint venture	Principal activity	Place of creation and principal place of operation	Proportion of ownership interest and voting rights held by the Corporation	
			December 31, 2015	December 31, 2014
Umbata Falls, L.P.	Own and operate an hydroelectric facility	Ontario	49%	49%
Viger-Denonville, L.P.	Own and operate a wind farm	Québec	50%	50%

The joint ventures are accounted for using the equity method in these consolidated financial statements.

The summarized financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

#### Umbata Falls, L.P.

#### Summary Statements of Earnings and Comprehensive Income (loss)

	Year ended December 31	
	2015	2014
Revenues	9,854	10,754
Operating, general and administrative expenses	846	859
	9,008	9,895
Finance costs	2,559	2,443
Other net revenues	(32)	(38)
Depreciation and amortization	4,019	4,015
Unrealized net loss on derivative financial instruments	1,217	3,844
Net earnings (loss) and comprehensive income (loss)	1,245	(369)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Summary Statements of Financial Position

As at	December 31, 2015	December 31, 2014
Cash and cash equivalents	831	2,350
Other current assets	1,392	1,879
Current assets	2,223	4,229
Non-current assets	68,467	72,116
	70,690	76,345
Accounts payable and other payables	134	217
Other current liabilities	2,928	46,607
Current liabilities	3,062	46,824
Non-current liabilities	48,852	5,749
Partner's equity	18,776	23,772
	70,690	76,345

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

As at	December 31, 2015	December 31, 2014
Net assets of the joint venture	18,776	23,772
Proportion of the Corporation's ownership interest in the joint venture	49%	49%
Carrying amount of the Corporation's interest in the joint venture	9,200	11,648

## Umbata Falls, L.P. 's Debt

On March 30, 2015, the long-term debt was refinanced. The loan consisting of a five-year term loan has been extended to March 2020. The loan will be amortized over a remaining 18.5-year period starting in April 2015. The loan bears interest at the bankers' acceptance rate plus an applicable credit margin for an all-in rate of 5.48%. The quarterly repayments will be increased by a cash flow sweep calculated as follow: the percentage of excess of actual production over the forecast production multiply by the quarterly excess cash flow.

The lender also agreed to make available a letter of credit facility in a principal amount not exceeding \$500. As at December 31, 2015, an amount of \$470 has been used to secure two letters of credit. This debt is secured by all of Umbata Falls LP's assets with a carrying value of \$70,690.

Umbata Falls, L.P. holds an amortizing interest rate swap contract of \$44,303 as at December 31, 2015 (\$45,521 in 2014), maturing in 2034 and bearing an interest rate of 3.98%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Viger-Denonville, L.P.

### Summary Statements of Earnings and Comprehensive Income (loss)

	Year ended December 31	
	2015	2014
Revenues	11,978	11,081
Operating, general and administrative expenses	1,923	1,818
	10,055	9,263
Finance costs	3,636	3,570
Other net revenues	(45)	(69)
Depreciation and amortization	2,921	2,933
Unrealized net loss on derivative financial instruments	1,639	3,838
Net earnings (loss)	1,904	(1,009)
Other comprehensive income	127	—
Total comprehensive income (loss)	2,031	(1,009)

### Summary Statements of Financial Position

As at	December 31, 2015	December 31, 2014
Cash and cash equivalents	1,460	4,996
Other current assets	966	964
Current assets	2,426	5,960
Non-current assets	59,518	62,452
	61,944	68,412
Accounts payable and other payables	572	520
Other current liabilities	3,928	3,482
Current liabilities	4,500	4,002
Non-current liabilities	57,191	58,588
Partner's equity	253	5,822
	61,944	68,412

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

As at	December 31, 2015	December 31, 2014
Net assets of the joint venture	253	5,822
Proportion of the Corporation's ownership interest in the joint venture	50%	50%
Carrying amount of the Corporation's interest in the joint venture	127	2,911

### Viger-Denonville, L.P.'s Debt

The loan consists of a 18-year term loan, amortized over an 18-year period starting in June 2014. The term loan carries a floating interest rate equal to the banker's acceptance rate plus an applicable margin for an all-in rate of 6.00%. The principal repayments are variable and set to \$2,557 for 2016. The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$984. As at December 31, 2015, an amount of \$984 has been used to secure one letter of credit. These loans are secured by Viger-Denonville, L.P.'s assets with a carrying value of \$61,944.

Viger-Denonville, L.P. holds an amortizing interest rate swap contract of \$54,285 as at December 31, 2015 (\$56,686 in 2014), maturing in 2031 and bearing an interest rate of 3.40%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 9.2 Commitments of joint ventures

As at December 31, 2015, the Corporation's share of the expected schedule of commitment payments for Umbata Falls, L.P. and Viger-Denonville, L.P. is as follows:

Years of	Hydroelectric Generation	Wind Power Generation	Total
2016	1,930	1,225	3,155
2017	1,930	1,309	3,239
2018	1,942	1,396	3,338
2019	1,940	1,420	3,360
2020	1,949	1,530	3,479
Thereafter	25,143	22,813	47,956
Total	34,834	29,693	64,527

### Umbata Falls, L.P.

The partnership will be dissolved in 2034, which is 25 years after the beginning of operations. Upon the dissolution of the partnership, the property and assets of the partnership shall be transferred to the other partner for no consideration.

### Viger-Denonville, L.P.

Parc Eolien Communautaire Viger-Denonville LP entered into royalties and other commitments related to amounts to set aside for the dismantling of wind farm components, commitments to surrounding municipalities and land owners and the operation of the wind farms.

## 10. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation holds interest rate swap contracts and bond forwards contracts ("Interest hedging instruments") that enable it to hedge its exposure to the floating interest rates payable on the portion of its long-term debt. The counterparties to the contracts are major financial institutions; the Corporation does not anticipate any payment defaults on their part. The estimated impact of an increase in swap rates curve of 0.1% would decrease the negative fair value of these financial instruments by \$3,956. Conversely, a decrease in swap rates curve of 0.1% would result in an increase of \$3,994 of the negative fair value of these financial instruments.

The Corporation records embedded derivatives separately from the host contracts:

- The inflation embedded derivative relates to provisions establishing minimum inflation rate at 3% of the selling prices provided for under some of the PPAs entered into with Hydro-Québec. The Corporation does not anticipate any payment defaults from the counterparty. The fair value of these financial instruments is evaluated using revenue estimates based on long-term production averages estimated for each facility. It varies based on the difference between the 3% minimum inflation rate and the long-term inflation rate, which is estimated at 2% as at December 31, 2015 over the remaining terms of these agreements, discounted at a rate of 2.15%. The expected impact of a 0.1% increase in the long-term inflation rate would reduce the fair value of these financial instruments by \$393 a 0.1% decrease in the long-term inflation rate would increase the fair value of these financial instruments by \$391.
- The foreign exchange embedded derivative adjusts the price of an equipment purchase for exchange rate fluctuations between the Euro and the Canadian dollar. The equipment purchase price varies based on the change in the exchange rate. This embedded derivative is economically hedged with a foreign exchange forward contract with the same notional amount. Gains or losses on the embedded derivative caused by a change in the exchange rate between the Euro and the Canadian dollar are offset by gains or losses associated with the foreign exchange forward contract.

The classification of the fair value hierarchy of all the financial assets and liabilities remained the same during 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Financial assets (liabilities)	Foreign exchange embedded derivative (Level 3)	Foreign exchange forwards (Level 2)	Interests hedging instruments (Level 2)	Inflation provisions (Level 3)	Total
As at January 1, 2015	1,542	(1,228)	(151,535)	5,373	(145,848)
Variation in fair value of derivative financial instruments	2,427	(2,018)	(37,202)	(1,396)	(38,189)
Settlements	(3,422)	3,246	119,733	—	119,557
Recognized in statement of earnings	(995)	1,228	82,531	(1,396)	81,368
Recognized in project development costs	(547)	—	—	—	(547)
Variation in fair value of derivative financial instruments recognized in other comprehensive income	—	—	(2,681)	—	(2,681)
As at December 31, 2015	—	—	(71,685)	3,977	(67,708)

Financial assets (liabilities)	Foreign exchange embedded derivative (Level 3)	Foreign exchange forwards (Level 2)	Interests hedging instruments (Level 2)	Inflation provisions (Level 3)	Total
As at January 1, 2014	—	—	(31,015)	6,648	(24,367)
Embedded derivative in equipment purchases contract	547	—	—	—	547
Variation in fair value of derivative financial instruments	995	(1,228)	(128,543)	(1,275)	(130,051)
Settlements	—	—	8,366	—	8,366
Recognized in statement of earnings	995	(1,228)	(120,177)	(1,275)	(121,685)
Variation in fair value of derivative financial instruments recognized in other comprehensive income	—	—	(343)	—	(343)
As at December 31, 2014	1,542	(1,228)	(151,535)	5,373	(145,848)

Reported in the consolidated financial statements:

As at	December 31, 2015	December 31, 2014
Current assets – derivative financial instruments	1,209	2,948
Non-current assets – derivative financial instruments	2,768	3,968
Current liabilities – derivative financial instruments	(15,337)	(104,095)
Non-current liabilities – derivative financial instruments	(56,348)	(48,669)
	(67,708)	(145,848)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Interest rate risk

The terms of the contracts reducing the Corporation's risk of interest rate fluctuations and for which hedge accounting is applied are as follows:

Contracts	Maturity	Early termination option	Notional Amounts	
			December 31, 2015	December 31, 2014
<b>Contracts for which hedge accounting has been applied since:</b>				
<b>October 16, 2014</b>				
Interest rate swaps, 2.33%	2024	2019	20,000	20,000
<b>December 15, 2014</b>				
Interest rate swaps, 2.30%	2024	2019	20,000	20,000
<b>April 1, 2015</b>				
Interest rate swaps, 4.27% to 4.41%	2018	None	82,600	82,600
Interest rate swaps, 2.94% to 4.83%, amortizing	2026	None	46,342	49,718
Interest rate swaps, from 3.35% to 3.50%, amortizing	2027	None	35,080	37,506
Interest rate swap, 3.74%, amortizing	2030	None	89,113	93,511
Interest rate swap, 4.22%, amortizing	2030	2016	26,063	27,485
Interest rate swap, 4.25%, amortizing	2031	2016	41,146	43,360
Interest rate swap, 4.61%, amortizing	2035	2025	97,957	100,463
Interest rate swap, 2.85%, amortizing	2041	2016	19,018	19,313
<b>September 28, 2015</b>				
Interest rate swap, 0.96%, amortizing	2017	None	49,250	—
Interest rate swap, 1.91%, amortizing	2026	None	103,000	—
<b>Contracts for which hedge accounting is not used:</b>				
Bond forwards, from 2.74% to 3.32%	2015	None	—	535,000
Interest rate swap, 3.96% to 4.09%	2015	None	—	15,000
Interest rate swap, 4.27%	2016	None	3,000	3,000
			<b>632,569</b>	<b>1,046,956</b>

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

During the year 2015, the Corporation terminated:

- \$170,000 of bond forward contracts related to the Upper Lillooet project and \$65,000 of bond forward contracts related to the Boulder Creek Project for a total cash consideration of \$68,047. This loss of \$68,047 resulted from a decrease in benchmark interest rates between the date the bond forwards were entered into (between September and December 2013) and the settlement date (March 17, 2015). This loss will be compensated by a low weighted average fixed interest rate of 4.36% for the 25- to 40-year term loans.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- \$110,000 of bond forward contracts related to the Big Silver project for a total cash consideration of \$24,702. This loss of \$24,702 resulted from a decrease in benchmark interest rates between the date the bond forwards were entered into (between December 2013 and January 2014) and the settlement date (June 22, 2015). This loss will be compensated by a low weighted average fixed interest rate of 4.71% for the 25- to 40-year term loans.
- \$190,000 of bond forward contracts related to the Mesgi'g Ugju's'n wind project for a total cash consideration of \$26,984. This loss of \$26,984 resulted from a decrease in benchmark interest rates between the date the bond forwards were entered into (between March and April 2014) and the settlement date (September 28, 2015). This loss will be compensated by a low weighted average fixed interest rate of 4.28% for these 9.5- to 19.5-year term loans.

## Foreign exchange risk

The terms of the contract reducing the Corporation's foreign exchange risk is as follows:

Contract	Maturity	Early termination option	Notional Amounts	
			December 31, 2015	December 31, 2014
<b>Contract for which hedge accounting is not used</b>				
Foreign exchange forwards (CAD1.43/Euro)	2015	None	—	78,400

During the year 2015, the Corporation terminated its \$78,400 foreign exchange forward contract related to the Mesgi'g Ugju's'n project for a total cash consideration of \$3,246. Concurrently, the Corporation fixed the rate of the Euro portion of its turbine supply agreement, therefore realizing a gain of \$3,422.

As at December 31, 2015, the following items were designated as cash-flow hedging instruments to mitigate the interest rate risk:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Cumulative changes in fair value used for calculating hedge ineffectiveness
		Assets	Liabilities	
<b>Cash-flow hedges:</b>				
Interest rate risk				
Interest rate swaps	629,569	—	(71,592)	(2,307)

All the hedging instruments are accounted for in the short-term or long-term portion of derivative financial instruments in the statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes the Corporation's hedged items as at December 31, 2015:

	Cumulative changes in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve <sup>1</sup>	Foreign currency translation reserve
<b>Cash-flow hedge:</b>			
Interest rate risk			
Interest rate swaps	(3,111)	3,024	—
<b>Hedge of net investment in a foreign operation:</b>			
Foreign exchange risk			
Libor advances	1,816	—	1,816

1. The balance of cash flow hedge reserve for which hedge accounting is no longer applied is nil.

The following table summarizes the impact of hedge ineffectiveness and hedging gains or losses as at December 31, 2015:

	Changes in fair value of the hedging instrument recognized in other comprehensive income	Hedge ineffectiveness recognized in profit or loss	Amount reclassified from the cash flow hedge reserve to profit or loss	Amount reclassified from the foreign currency translation reserve to profit or loss	Line item affected in profit or loss resulting from the reclassification
<b>Cash-flow hedge:</b>					
Interest rate risk					
Interest rate swaps	2,681	635	—	—	—
<b>Hedge of net investment in a foreign operation:</b>					
Foreign exchange risk					
Libor advances	1,610	—	—	—	—

Ineffectiveness is accounted for in the unrealized net loss (gain) on derivative financial instruments in the statements of earnings.

The sources of hedge ineffectiveness are related to the variation of the credit risk of each parties of the hedge.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 11. INCOME TAXES

### a. Income tax recognized in statements of earnings

	December 31, 2015	December 31, 2014
<b>Current tax</b>		
Current tax expense in respect of the current year	3,194	3,079
Adjustments recognized in the current year in relation to the current tax expense of prior years	(72)	(65)
	3,122	3,014
<b>Deferred tax</b>		
Deferred tax recovery recognized in the current year	(15,383)	(29,280)
Increase (decrease) in deferred income tax rates	58	(198)
Adjustments recognized in the current year in relation to the deferred tax of prior years	163	(408)
	(15,162)	(29,886)
<b>Total income tax recovery recognized in the current year</b>	<b>(12,040)</b>	<b>(26,872)</b>

The total income tax recovery for the year can be reconciled to the accounting loss as follows:

	December 31, 2015	December 31, 2014
Loss before income taxes	(60,423)	(111,250)
Canadian statutory income tax rate	26.6%	26.6%
Income tax recovery calculated at the statutory rate	(16,073)	(29,593)
Items affecting the statutory rate:		
Non-deductible expenses	63	547
Effect of previously unrecognized and unused tax losses and temporary differences used in the year	(259)	(1,663)
Income taxable at a different rate than the Canadian statutory tax rate	394	537
Increase (decrease) in deferred income tax rates	58	(198)
Increase in taxable temporary differences in relation to investments in subsidiaries and in joint ventures	1,560	623
Tax on dividends on preferred shares	211	212
Adjustments recognized in the current year in relation to the current tax of prior years	(72)	(65)
Adjustments recognized in the current year in relation to the deferred tax of prior years	163	(408)
Income tax on loss allocated to minority interests on non-taxable entities	1,933	3,116
Others	(18)	20
<b>Income tax recovery recognized in statements of earnings</b>	<b>(12,040)</b>	<b>(26,872)</b>

The tax rate used for 2015 and 2014 reconciliations above is the average combined corporate tax rate payable by corporate entities in Canada on taxable profits under federal and provincials' tax laws. There was no change in corporate tax rates in 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## b. Income tax recognized in other comprehensive income

	December 31, 2015	December 31, 2014
<b>Deferred tax</b>		
Arising on income and expenses recognized in other comprehensive income:		
Translation of self-sustaining foreign subsidiaries	223	85
Designated portion of the US dollar denominated debt used as a hedge on the investments in self-sustaining foreign subsidiaries	(212)	(85)
Change in fair value of hedging instruments	(590)	(90)
Share of change in fair value of hedging instruments of joint venture	16	—
Share of non-controlling interests in change in fair value of hedging instruments	18	—
<b>Total income tax recognized directly in other comprehensive income</b>	<b>(545)</b>	<b>(90)</b>

## c. Income tax recognized directly in equity

	December 31, 2015	December 31, 2014
<b>Deferred tax</b>		
Arising on transactions with owners:		
Equity portion of convertible debentures	171	—
Share issue expenses deductible over 5 years	—	(22)
<b>Total income tax recognized directly in equity</b>	<b>171</b>	<b>(22)</b>

## d. Current tax assets and liabilities

	December 31, 2015	December 31, 2014
<b>Current tax assets</b>		
Income tax receivable	4	93
<b>Current tax liabilities</b>		
Income tax payable	1,234	1,408

## e. Deferred tax balances

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statements of financial position:

	December 31, 2015	December 31, 2014
Deferred tax assets	15,356	14,025
Deferred tax liabilities	(147,931)	(162,303)
	<b>(132,575)</b>	<b>(148,278)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	As at January 1, 2015	Recognized in statement of earnings	Recognized in other comprehensive income	Transfer of project development costs to property, plant and equipment	Transfer of property, plant and equipment to intangibles from subsequents adjustments (Note 5)	Recognized directly in equity	Net exchange differences	As at December 31, 2015
Deferred tax assets (liabilities) in relation to:								
Property, plant and equipment	(109,672)	(13,575)	—	(836)	1,739	—	17	(122,327)
Intangible assets	(97,575)	4,331	—	—	(1,739)	—	(136)	(95,119)
Project development costs	(9,479)	19,360	—	836	—	—	—	10,717
Investments into subsidiaries and in joint ventures	(813)	(2,834)	(239)	—	—	—	—	(3,886)
Non-repatriated income from foreign subsidiaries	(855)	(191)	—	—	—	—	—	(1,046)
Derivative financial instruments	47,492	7,670	572	—	—	—	—	55,734
Long-term debt	(4,049)	(181)	—	—	—	—	—	(4,230)
Convertible debentures	(126)	(228)	—	—	—	(171)	—	(525)
Other liabilities	581	(41)	—	—	—	—	—	540
Financing fees	(718)	(1,974)	—	—	—	—	—	(2,692)
Share-based payment	610	410	—	—	—	—	—	1,020
	(174,604)	12,747	333	—	—	(171)	(119)	(161,814)
Tax losses	26,326	2,415	212	—	—	—	286	29,239
	(148,278)	15,162	545	—	—	(171)	167	(132,575)

As at December 31, 2015, the Corporation, its subsidiaries and joint ventures have non-capital losses totaling approximately \$108,000 that may be applied against future taxable income. These non-capital losses expire gradually between 2027 and 2035.

The Corporation recognized a deferred tax asset on non-capital losses because it is probable that sufficient taxable profit and taxable capital gains will be available from hydroelectric, solar and wind projects currently in operation or that will be in the near future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	As at January 1, 2014	Recognized in statement of earnings	Recognized in other comprehensive income	Recognized in business acquisition	Transfer of project development costs to property, plant and equipment and intangibles	Recognized directly in equity	Net exchange differences	As at December 31, 2014
Deferred tax assets (liabilities) in relation to:								
Property, plant and equipment	(86,445)	1,984	—	(16,698)	(8,567)	—	54	(109,672)
Intangible assets	(93,555)	3,693	—	(1,545)	(6,126)	—	(42)	(97,575)
Project development costs	(12,716)	(11,456)	—	—	14,693	—	—	(9,479)
Investments into subsidiaries and in joint ventures	(672)	(56)	(85)	—	—	—	—	(813)
Non-repatriated income from foreign subsidiaries	(681)	(174)	—	—	—	—	—	(855)
Derivative financial instruments	14,772	32,630	90	—	—	—	—	47,492
Long-term debt	(5,675)	(130)	—	1,756	—	—	—	(4,049)
Convertible debentures	(175)	49	—	—	—	—	—	(126)
Other liabilities	649	(68)	—	—	—	—	—	581
Financing fees	1,198	(1,938)	—	—	—	22	—	(718)
Share-based payment	405	205	—	—	—	—	—	610
	(182,895)	24,739	5	(16,487)	—	22	12	(174,604)
Tax losses	21,010	5,147	85	—	—	—	84	26,326
	(161,885)	29,886	90	(16,487)	—	22	96	(148,278)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## f. Unrecognized deductible temporary differences, unused tax losses and unused tax credits

	December 31, 2015	December 31, 2014
Tax losses - revenue in nature	4,175	3,525
Tax losses- capital in nature	13,165	15,130
Transaction costs	2,285	2,162
	19,625	20,817

The unrecognized tax losses-revenue in nature will expire gradually between 2029 and 2034.

## 12. EARNINGS PER SHARE

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

	Year ended December 31	
	2015	2014
Net loss attributable to owners of the parent	(30,301)	(54,853)
Dividends declared on preferred shares	(7,125)	(7,125)
Net loss available to common shareholders	(37,426)	(61,978)
Weighted average number of common shares (in 000s)	102,304	98,341
Basic net loss per share (\$)	(0.37)	(0.63)
Weighted average number of common shares (in 000s)	102,304	98,341
Effect of dilutive elements on common shares (in 000s) (a)	283	210
Diluted weighted average number of common shares (in 000s)	102,587	98,551
Diluted net loss per share (\$) (b)	(0.37)	(0.63)

- a. Stock options for which the exercise price was above the average market price of common shares were excluded from the calculation of diluted weighted average number of shares outstanding. During the year ended December 31, 2015, 2,579,684 of the 3,425,684 stock options (1,830,684 of the 3,470,684 for the year ended December 31, 2014) were dilutive.

During the year ended December 31, 2015, none of the 6,666,667 shares that can be issued on conversion of convertible debentures were dilutive (none of the 7,558,684 shares were dilutive in 2014).

- b. During the year ended December 31, 2015, 2,579,684 of the 3,425,684 stock options (1,830,684 of the 3,470,684 for the year ended December 31, 2014) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 13. KEY MANAGEMENT PERSONNEL COMPENSATION

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

	Year ended December 31	
	2015	2014
Salaries and short-term benefits	5,409	4,525
Attendance fees for members of the Board of Directors	524	567
Performance share plan	1,416	694
Share-based payment	192	244
	7,541	6,030

## 14. EMPLOYEE BENEFITS

The expenses that the Corporation recognized for its employee benefits is composed of salaries and short-term benefits. The expenses were included in the following categories:

	Year ended December 31	
	2015	2014
Operating expenses	4,153	3,607
General and administrative	9,085	8,534
Prospective projects expenses	4,714	2,542
Transaction costs	131	281
Capitalized in Property, plant and equipment	5,724	4,377
Capitalized in Project development costs	221	1,873
	24,028	21,214

## 15. RESTRICTED CASH AND SHORT-TERM INVESTMENTS

As at	December 31, 2015	December 31, 2014
Restricted cash accounts	37,487	7,387
Restricted proceeds account	268,441	71,678
Debt service payment accounts	6,792	6,742
	312,720	85,807

As part of the Boulder Creek Power LP, Upper Lillooet River Power LP, Kwoiek Creek LP, Northwest Stave LP, Big Silver Creek Power LP, Tretheway Creek Power LP and Mesgig'g Ugju's'n LP credit agreements, the Corporation maintains restricted cash accounts and restricted proceeds accounts. The balance of the loans proceeds are held in restricted proceeds account managed by the lenders and amounts are transferred from time to time into the restricted cash accounts to finance the construction of the projects. The restricted cash accounts are used to pay the current construction costs of the projects and to hold the construction holdbacks amounts that will be released at the end of the construction of the respective projects.

In relation with the six run-of-river hydroelectric facilities at Harrison Hydro L.P. (the "Harrison Operating Facilities"), the Corporation maintains debt service payment accounts. The debt service payment accounts require a monthly transfer equal to one-sixth of the next semi-annual bond payments and a monthly transfer equal to one-third of the next quarterly bond payment required on the outstanding junior bonds. Senior and junior loan payments are taken from this account on their due dates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 16. ACCOUNTS RECEIVABLE

As at	December 31, 2015	December 31, 2014
Trade	24,984	27,983
Commodity taxes	8,112	4,421
Investment tax credits	856	1,538
Others	3,121	1,329
	37,073	35,271

Substantially all of the Corporation's trade receivables relate to electricity sold to public utilities including Hydro-Québec, British Columbia Hydro, Hydro One Inc. and its affiliates and Idaho Power Company. Hydro-Québec currently holds a credit rating of A+ from Standard & Poor's (S&P). British Columbia Hydro and Power Authority currently holds a credit rating of AAA from S&P. The Ministry of Energy of the Province of Ontario has stated that the Province of Ontario, which currently holds a credit rating of A+ from S&P, will honor Hydro One Inc. and its affiliates obligations under the PPAs to which it is a party. Hydro One Inc. and its affiliates currently holds a credit rating of A from S&P. Idaho Power Company currently has a credit rating of BBB from S&P.

Commodity taxes and investment tax credits are receivable from the federal or provincial governments, following the development and construction of projects.

The Corporation did not record any allowance for doubtful accounts since, based on its experience, there is a low risk of bad debts. The Corporation does not hold any specific guarantees for its accounts receivable. All accounts receivable are current.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 17. RESERVE ACCOUNTS

	Hydrology / wind power reserve	Major maintenance reserve	Total
Reserves – As at January 1, 2015	37,547	3,788	41,335
Net investments in (withdrawals from) the reserves	2,038	(702)	1,336
Impact of foreign exchange fluctuations	139	26	165
Reserves – end of year	39,724	3,112	42,836
Less: Current portion	(947)	(368)	(1,315)
Long-term portion	38,777	2,744	41,521

	Hydrology / wind power reserve	Major maintenance reserve	Total
Reserves – As at January 1, 2014	43,972	3,590	47,562
Reserve acquired on business acquisition (Note 5)	—	259	259
Net withdrawals from the reserves	(6,485)	(53)	(6,538)
Impact of foreign exchange fluctuations	60	(8)	52
Reserves – end of year	37,547	3,788	41,335
Less: Current portion	(651)	—	(651)
Long-term portion	36,896	3,788	40,684

Short-term investments are held at major financial institutions. The Corporation recorded no impairment of these financial instruments since the counterparties have high credit ratings.

The availability of \$40,929 (\$39,018 in 2014) in the reserve accounts is restricted by credit agreements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 18. PROPERTY, PLANT AND EQUIPMENT

Cost	Lands	Hydroelectric facilities	Wind farm facilities	Solar facility	Facilities under construction	Other equipments	Total
As at January 1, 2015	2,541	1,340,129	372,106	124,244	287,401	8,367	2,134,788
Additions	62	3,707	782	68	299,105	828	304,552
Business acquisition (Note 5)	—	(6,591)	—	—	—	—	(6,591)
Transfer of assets upon commissioning	—	89,084	—	—	(89,084)	—	—
Transfer from projects under development	—	—	—	—	34,169	21	34,190
Dispositions	—	(613)	—	—	—	(49)	(662)
Other changes	—	—	(850)	(38)	—	—	(888)
Net foreign exchange differences	20	1,309	—	—	—	27	1,356
<b>As at December 31, 2015</b>	<b>2,623</b>	<b>1,427,025</b>	<b>372,038</b>	<b>124,274</b>	<b>531,591</b>	<b>9,194</b>	<b>2,466,745</b>
<b>Accumulated depreciation</b>							
As at January 1, 2015	—	(135,670)	(82,528)	(15,866)	—	(4,935)	(238,999)
Depreciation	—	(28,164)	(17,779)	(5,954)	—	(1,364)	(53,261)
Dispositions	—	137	—	—	—	43	180
Net foreign exchange differences	—	(420)	—	—	—	(23)	(443)
<b>As at December 31, 2015</b>	<b>—</b>	<b>(164,117)</b>	<b>(100,307)</b>	<b>(21,820)</b>	<b>—</b>	<b>(6,279)</b>	<b>(292,523)</b>
<b>Carrying amount as at December 31, 2015</b>	<b>2,623</b>	<b>1,262,908</b>	<b>271,731</b>	<b>102,454</b>	<b>531,591</b>	<b>2,915</b>	<b>2,174,222</b>

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

Additions in the current year include \$30,341 of capitalized financing costs (\$5,647 for the year ended December 31, 2014) 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 \$2,622 (\$1,408 as at December 31, 2014).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Lands	Hydroelectric facilities	Wind farm facilities	Solar facility	Facilities under construction	Other equipments	Total
<b>Cost</b>							
As at January 1, 2014	2,141	1,063,065	370,729	124,205	201,742	7,473	1,769,355
Additions	161	7,463	501	—	222,555	1,150	231,830
Business acquisition (Note 5)	230	115,240	—	—	—	—	115,470
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)	876	39	—	(82)	805
Net foreign exchange differences	9	512	—	—	—	11	532
<b>As at December 31, 2014</b>	<b>2,541</b>	<b>1,340,129</b>	<b>372,106</b>	<b>124,244</b>	<b>287,401</b>	<b>8,367</b>	<b>2,134,788</b>
<b>Accumulated depreciation</b>							
As at January 1, 2014	—	(107,529)	(64,772)	(9,915)	—	(3,722)	(185,938)
Depreciation	—	(28,015)	(17,736)	(5,951)	—	(1,443)	(53,145)
Dispositions	—	30	—	—	—	151	181
Other changes	—	10	(20)	—	—	87	77
Net foreign exchange differences	—	(166)	—	—	—	(8)	(174)
<b>As at December 31, 2014</b>	<b>—</b>	<b>(135,670)</b>	<b>(82,528)</b>	<b>(15,866)</b>	<b>—</b>	<b>(4,935)</b>	<b>(238,999)</b>
<b>Carrying amount as at December 31, 2014</b>	<b>2,541</b>	<b>1,204,459</b>	<b>289,578</b>	<b>108,378</b>	<b>287,401</b>	<b>3,432</b>	<b>1,895,789</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 19. INTANGIBLE ASSETS

	Hydroelectric facilities	Wind farm facilities	Solar facility	Facilities under construction	Total
<b>Cost</b>					
As at January 1, 2015	497,620	75,816	9,538	35,351	618,325
Additions	325	—	—	—	325
Business acquisition (Note 5)	6,591	—	—	—	6,591
Transfer of assets upon commissioning	12,111	—	—	(12,111)	—
Net exchange differences	442	—	—	—	442
<b>As at December 31, 2015</b>	<b>517,089</b>	<b>75,816</b>	<b>9,538</b>	<b>23,240</b>	<b>625,683</b>
<b>Accumulated amortization</b>					
As at January 1, 2015	(106,095)	(23,570)	(1,252)	(96)	(131,013)
Amortization	(16,265)	(5,475)	(477)	—	(22,217)
Net exchange differences	(182)	—	—	—	(182)
<b>As at December 31, 2015</b>	<b>(122,542)</b>	<b>(29,045)</b>	<b>(1,729)</b>	<b>(96)</b>	<b>(153,412)</b>
<b>Net value as at December 31, 2015</b>	<b>394,547</b>	<b>46,771</b>	<b>7,809</b>	<b>23,144</b>	<b>472,271</b>
	Hydroelectric facilities	Wind farm facilities	Solar facility	Facilities under construction	Total
<b>Cost</b>					
As at January 1, 2014	478,619	81,582	9,538	12,115	581,854
Business acquisition (Note 5)	18,807	—	—	—	18,807
Transfer of assets upon commissioning	4	—	—	(4)	—
Transfer from projects under development	—	—	—	23,240	23,240
Other changes	—	(5,766)	—	—	(5,766)
Net exchange differences	190	—	—	—	190
<b>As at December 31, 2014</b>	<b>497,620</b>	<b>75,816</b>	<b>9,538</b>	<b>35,351</b>	<b>618,325</b>
<b>Accumulated amortization</b>					
As at January 1, 2014	(90,526)	(24,460)	(775)	—	(115,761)
Amortization	(15,498)	(4,876)	(477)	(96)	(20,947)
Other changes	—	5,766	—	—	5,766
Net exchange differences	(71)	—	—	—	(71)
<b>As at December 31, 2014</b>	<b>(106,095)</b>	<b>(23,570)</b>	<b>(1,252)</b>	<b>(96)</b>	<b>(131,013)</b>
<b>Net value as at December 31, 2014</b>	<b>391,525</b>	<b>52,246</b>	<b>8,286</b>	<b>35,255</b>	<b>487,312</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 20. PROJECT DEVELOPMENT COSTS

	December 31, 2015	December 31, 2014
<b>Cost</b>		
Beginning of year	61,020	81,643
Additions	24,889	20,443
Transfer to property, plant and equipment	(34,190)	(17,279)
Transfer to intangible assets	—	(23,240)
Impairment of project development costs	(51,719)	—
Other changes	—	(547)
End of year	—	61,020

For the years ended December 31, 2015 and 2014, the Corporation conducted annual project development costs impairment tests. Based on the results of these tests, a \$51,719 impairment charge was required in 2015 for projects for which uncertainties exist regarding the timing and profitability of any development. For the year ended December 31, 2014, no impairment charge was required.

The recoverable amount of the project development costs is determined based on the basis of a value-in-use calculation that uses cash flow projections based on the financial budgets for comparable projects. The projections are approved by management, cover a period of 40 to 75 years and assume a pre-tax discount rate of 6.50% in 2014.

The following assumptions are used to determine the recoverable amount of assets:

- The discount rate is a weighted average between the consolidated cost of debt and the consolidated cost of equity to which a risk premium is added for each project.
- A cash-generating unit is an individual hydroelectric facility.
- The future expected cash flows are based on the comparable projects budgets for each cash-generating unit. The budgets have been built using long-term water flow averages. These averages approximate actual results.
- The number of projects and the time frames for the projects to be developed.

In 2011, full ownership of hydroelectric projects in British Columbia in various stages of development (with a potential aggregate installed capacity of over 800 MW) resulted from the acquisition of Cloudworks Energy Inc. Accordingly, an amount of \$51,719 for Prospective Projects was recorded following the acquisition. However, as at December 31, 2015, BC Hydro's Site C (a mega hydroelectric station that should provide around 1,100 MW of capacity, and produce about 5,100 GWh of electricity a year) is moving forward. Construction of the project started in summer 2015. Furthermore, in September 2015, the BC Supreme Court dismissed a petition seeking an order quashing the Environmental Assessment Certificate issued by the Minister of the Environment and the Minister of Forests, Lands and Natural Resource Operations for the project. In November 2015, BC Hydro and the BC Government announced the awarding of a \$1.5 Billion construction contract for Site C. The odds of success on litigation led by First Nations and various environmental groups against Site C are fairly remote as construction activities are in progress. BC Hydro publicly announced that based on their forecasts, it would likely be the early 2030s before the utility foresees the need for a significant block of new electricity from Independent Power Producers. Consequently, in the year ended December 31, 2015, the Corporation recognized an impairment of \$51,719 (\$nil in 2014) related to its BC Prospective Projects for which it retains ownership of the licenses that it might develop in the future. Simultaneously, the contingent considerations related to these Prospective Projects were reversed resulting in a realized gain of \$3,447.

Additions in the current year include \$204 of capitalized interests (\$235 in 2014).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 21. GOODWILL

Allocation of goodwill to each cash-generating unit is as follows:

As at	December 31, 2015	December 31, 2014
St-Paulin	935	935
Portneuf	4,166	4,166
Chaudière	3,168	3,168
Total Goodwill	8,269	8,269

For the years ended December 31, 2015 and 2014, the Corporation conducted annual goodwill impairment tests. Based on the result of these tests, no impairment charge was required.

The recoverable amount of each cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a period extending to the lesser of 50 years or the period for which the Corporation owns its rights on the site and a pre-tax discount rate of 5.51% (5.54% in 2014).

Assumptions used to determine the recoverable amount of assets are the following:

- The discount rate is a weighted average between the consolidated cost of debt and the consolidated cost of equity to which a risk premium is added for each cash-generating unit.
- The expected selling price of electricity once the power purchase agreements are renewed.
- A cash-generating unit is an individual hydroelectric facility.
- The future expected cash flows are based on the budgets before debt service and income tax of each cash-generating unit. The budgets have been built using long-term averages of water flows. These long-term averages approximate actual results.

## 22. ACCOUNTS PAYABLE AND OTHER PAYABLES

As at	December 31, 2015	December 31, 2014
Trade and other payables	53,175	30,058
Current portion of construction holdbacks	32,415	6,143
Interest payable	7,941	7,019
Commodity taxes	1,935	2,387
	95,466	45,607

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 23. LONG-TERM DEBT

	Interests rate 2015	Interests rate 2014	Maturity	December 31, 2015	December 31, 2014
<b>Revolving credit term facility (with recourse to the Corporation)</b>					
a) Prime rate advances	3.30%	3.85%	2019	20	20
a) Bankers' acceptances	2.46%	3.06%	2019	129,880	321,880
a) LIBOR advances, US\$13,900	1.98%	2.04%	2019	19,238	16,125
				149,138	338,025
<b>Term loans (Non-recourse to the Corporation)</b>					
b) Harrison Operating Facilities, non-interest bearing term loans from partners	—	—	2015	—	1,750
c) Hydro-Windsor, fixed rate term loan	8.25%	8.25%	2016	1,015	2,145
d) Fitzsimmons Creek, floating-rate term loan	1.99%	2.42%	2016	21,051	21,430
e) Magpie, fixed rate bridge loan	2.33%	2.33%	2017	537	850
e) Magpie, fixed rate debenture	4.59%	4.59%	2017	748	1,094
f) Montagne-Sèche, floating-rate term loan	2.63%	3.05%	2021	26,063	27,485
g) Rutherford Creek, fixed rate term loan	6.88%	6.88%	2024	39,378	42,677
e) Magpie, fixed rate convertible debenture	4.34%	4.34%	2025	5,020	5,262
h) Ashlu Creek, floating-rate term loan	2.35%	2.96%	2025	95,062	96,695
i) Sainte-Marguerite, fixed rate term loan	3.30%	3.30%	2025	32,598	35,899
j) L'Anse-à-Valleau, floating-rate term loan	2.08%	2.50%	2026	36,091	38,716
k) Carleton, floating-rate term loan	3.04%	3.46%	2027	45,758	48,997
l) Stardale, floating-rate term loan	3.13%	3.55%	2030	96,862	101,643
e) Magpie, fixed rate term loan	4.37%	4.37%	2031	52,243	54,452
m) Kwoiek Creek, fixed rate term loan	5.08%	5.08%	2052	168,500	168,500
n) Northwest Stave River, fixed rate term loan	5.30%	5.30%	2053	71,972	71,972
m) Kwoiek Creek, fixed rate term loan	10.07%	10.07%	2054	3,662	3,662
o) Tretheway, fixed rate construction loan	4.99%	4.99%		92,916	92,916
p) Mesgi'g Uguju's'n, fixed rate construction loan	4.28%	—		159,459	—
q) Boulder and Upper Lillooet, fixed rate construction loan	4.22%	—		172,207	—
r) Big Silver, fixed rate construction loan	4.57%	—		51,012	—
q) Boulder and Upper Lillooet, fixed rate construction loan	4.46%	—		227,938	—
q) Boulder and Upper Lillooet, fixed rate construction loan	4.46%	—		45,588	—
r) Big Silver, fixed rate construction loan	4.76%	—		128,311	—
r) Big Silver, fixed rate construction loan	4.76%	—		17,900	—
i) Sainte-Marguerite, fixed rate debenture	8.00%	8.00%	2064	42,401	42,401
Other loans with various maturities and interest rates			2017-2019	134	136
				1,634,426	858,682

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 23. LONG-TERM DEBT (continued)

	Interests rate 2015	Interests rate 2014	Maturity	December 31, 2015	December 31, 2014
<b>Bonds (Non-recourse to the Corporation)</b>					
s) v) Harrison Operating Facilities, senior real return bond	3.95%	3.95%	2049	223,391	225,014
t) v) Harrison Operating Facilities, senior fixed rate bond	6.61%	6.61%	2049	207,141	209,485
u) v) Harrison Operating Facilities, junior real return bond	5.02%	5.02%	2049	28,222	27,820
				458,754	462,319
<b>Total long-term debt</b>				2,242,318	1,659,026
<b>Deferred financing costs</b>				(26,885)	(14,427)
				2,215,433	1,644,599
Current portion of long-term debt ( net of \$29 deferred financing costs in 2015, nil in 2014)				(54,995)	(33,799)
Long-term portion				2,160,438	1,610,800

### a. Revolving term credit facility

The Corporation has a maximum borrowing capacity of \$425,000 on its revolving term credit facility, which will mature in 2019.

As at December 31, 2015, the Bankers' Acceptances ("BA") rate advances and prime rate advances totaling \$129,900 along with a LIBOR rate advance of \$19,238 (US\$13,900) were due under this facility. An amount of \$95,503 has been used to secure letters of credit. Thus, the unused and available position of the facility was \$180,359. The carrying value of assets of the Corporation and subsidiaries given as securities under this facility totals approximately \$473,100.

The revolving term credit facility was renegotiated on January 18, 2016, see subsequent events section.

### b. Harrison Operating Facilities, term loans

The non-interest bearing loans from the partners of the Corporation in the Harrison Project were repaid in full in 2015.

### c. Hydro-Windsor

The loan consists of a 20-year term loan starting in December 1996 and amortized over a 20-year period ending in December 2016. The loan is repayable by monthly blended payments of principal and interest totaling \$105. The principal repayments for 2016 are set at \$1,000. The loan is secured by the assets of Hydro-Windsor L.P. with a carrying value of approximately \$10,000.

### d. Fitzsimmons Creek

The loan consists of a five-year term loan starting in December 2011 and amortized over a 30-year period. The loan advances bear interest at the BA rate plus an applicable margin. The principal repayments are variable and are set at \$19,018 for 2016. As at December 31, 2015, the all-in effective interest rate was 3.98% (3.98% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$150. As at December 31, 2015, an amount of \$50 had been used to secure one letter of credit. This debt is secured by the assets of Fitzsimmons Creek Hydro L.P. with a carrying value of approximately \$25,000.

### e. Magpie

The bridge loan is amortized until August 2017. The bridge loan is repayable in monthly blended payments of principal and interest totaling \$27. The principal repayments for the bridge loan are set at \$306 for 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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The debenture is amortized until December 2017. The debenture is repayable by yearly blended payments of principal and interest totaling \$400, excluding non-cash implicit interest of \$35. The principal repayment for 2016 is set at \$400.

The convertible debenture has no predetermined repayment schedule and matures in January 2025. The convertible debenture entitles the municipality to a 30% interest in the facility upon conversion of the debenture on or before January 1, 2025. Early conversion is at the discretion of the Corporation.

The term loan amortizing until 2031 is repayable in monthly blended payments of principal and interest totaling \$379. The principal repayments for the term loan are variable and are set at \$1,697 for 2016;

The bridge loan and the term loan are secured by the assets of Magpie L.P. with a carrying value of approximately \$99,700.

## **f. Montagne-Sèche**

In May 2014, the Corporation renegotiated the loan to extend the maturity to June 2021. The loan consists of a 7-year term loan, amortized over a 16-year period starting in May 2014. As at December 31, 2015, the loan bears interest at the BA rate plus an applicable margin. The principal repayments are variable and set at \$1,528 for 2016. As at December 31, 2015, the all-in effective interest rate was 5.97% (5.97% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$445. As at December 31, 2015, an amount of \$267 has been used to secure one letter of credit. The loan is secured by the assets of Innergex Montagne-Sèche, L.P. with a carrying value of approximately \$36,500.

## **g. Rutherford Creek**

The loan consists of a 20-year fixed rate term loan starting in July 2004 amortized over a 12-year period effective July 1, 2012. This debt is repayable by monthly blended payments of principal and interest totaling \$511. The principal repayments are variable and are set at \$3,533 for 2016. The loan is secured by the assets of Rutherford Creek Power Limited Partnership, with a carrying value of approximately \$81,500.

## **h. Ashlu Creek**

The loan consists of a 15-year term loan, amortized over a 25-year period starting in September 2010. The loan bears interest at the BA rate plus an applicable margin. The term loan is repayable in quarterly installments. The principal repayments are variable and are set at \$3,307 for 2016. As at December 31, 2015, the all-in effective interest rate was 6.06% (6.16% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$3,000. As at December 31, 2015 an amount of \$1,534 had been used to secure one letter of credit. The loan is secured by the assets of Ashlu Creek hydroelectric facility with a carrying value of approximately \$164,300.

## **i. Sainte-Marguerite**

As part of the Sainte-Marguerite Acquisition, the Corporation assumed a \$30,796 term loan, bearing interest at 7.40%, repayable in monthly blended payments of principal and interest totaling \$360, increasing over the years and maturing in 2025. The principal repayments for 2016 are set at \$2,605. 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 the assets of Sainte-Marguerite L.P. with a carrying value of approximately \$136,300.

Concurrent with the acquisition of the Sainte-Marguerite facility, a debenture was issued by Sainte-Marguerite L.P. to Desjardins Group Pension Plan for total proceeds of \$40,901. In December 2014, an additional \$1,500 was subscribed to the debenture issued by Sainte-Marguerite L.P. for a total amount of \$42,401. This debenture carries an interest rate of 8.00%; it has no predetermined repayment schedule and matures in 2064.

## **j. L'Anse-à-Valleau**

The loan consists of an 18.5-year term loan starting in December 2007 and amortized over an 18.5-year period. The loan bears interests at the BA rate plus an applicable margin. The term loan is repayable in quarterly installments. The



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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principal repayments are variable and are set at \$2,764 for 2016. As at December 31, 2015, the all-in effective interest rate was 6.03% (6.03% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a credit facility of \$1,200 in order to secure letters of credit. As at December 31, 2015, an amount of \$423 had been used to secure one letter of credit. The loan is secured by the assets of Innergex AAV, L.P. with a carrying value of approximately \$58,000.

## **k. Carleton**

The loan consists of a 14-year term loan starting in June 2013 and amortized over a 14-year period. The term loan bears interest at the BA rate plus an applicable margin. The term loan is repayable in quarterly installments. The principal repayments are variable and are set at \$3,352 for 2016. As at December 31, 2015, the all-in effective interest rate was 5.46% (5.46% in 2014) after accounting for the interest rate swap.

This debt is secured by the assets of Innergex CAR, L.P. with a carrying value of approximately \$74,300.

## **l. Stardale**

The loan consists of an 18-year term loan starting in September 2012 and amortized over an 18-year period. The loan bears interest at the BA rate plus an applicable credit margin. The term loan is repayable in quarterly installments. The principal repayments are variable and set at \$4,979 for 2016. As at December 31, 2015, the all-in effective interest rate was 5.99% (5.99% in 2014) after accounting for the interest rate swap.

The lenders also agreed to make available a letter of credit facility in an amount not to exceed \$5,600. As at December 31, 2015, an amount of \$5,600 had been used to secure two letters of credit. The loan is secured by the assets of Stardale L.P. with a carrying value of approximately \$114,500.

The loan was refinanced on February 22, 2016, see subsequent events section.

## **m. Kwoiek Creek**

The construction term loan was converted into a 37-year term loan in February 2015 and amortized over a 36-year period starting in January 2017. The term loan is repayable in quarterly installments. The principal repayments are variable and set at nil for 2016. The loan is secured by the assets of Kwoiek Creek Resources L.P. with a carrying value of approximately \$163,600.

The Corporation's partner in the Kwoiek Creek project made a loan to Kwoiek Creek Resources Limited Partnership. Under the project agreements, both partners can participate in the project financing.

## **n. Northwest Stave River**

The non-recourse construction loan was converted into a 38-year term loan in February 2015 and amortized over a 35-year period. The loan is secured by Northwest Stave River L.P.'s assets with a carrying value of approximately \$82,100.

## **o. Tretheway**

On September 30, 2014, the Corporation closed a \$92,916 non-recourse construction and term project financing for the Tretheway Creek run-of-river hydroelectric project. The construction loan carries a fixed interest rate of 4.99%; it will convert into a term loan in 2016 and the principal will begin to be amortized over a 35-year period, starting in the fifth year following the commencement of delivery of electricity which took place on November 9, 2015. The loan is secured by the assets of Tretheway L.P. with a carrying value of approximately \$124,100.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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## **p. Mesgi'g Ugju's'n**

On September 28, 2015, Mesgi'g Ugju's'n (MU) Wind Farm L.P. closed a \$311,709 non-recourse construction and term project financing for the Mesgi'g Ugju's'n wind project.

The loan comprises three facilities or tranches:

- A \$49,250 floating-rate construction loan carrying a swap-fixed interest rate of 2.41%; following the start of the wind farm's commercial operation, it will be repaid with the proceeds of the scheduled reimbursement by Hydro-Québec for the Mesgi'g Ugju's'n electrical substation. As at December 31, 2015, this tranche was not used;
- A \$103,000 floating-rate construction loan carrying a swap-fixed interest rate of 3.54%; following the start of the wind farm's commercial operation, it will convert into a 9.5-year term loan and the principal will be amortized over the term of the loan. As at December 31, 2015, this tranche was not used;
- A \$159,459 construction loan carrying a fixed interest rate of 4.28%; following the start of the wind farm's commercial operation, it will convert into a 19.5-year term loan and the principal will begin to be amortized after the maturity of the 9.5-year term loan. As at December 31, 2015, this tranche was fully used.

The lenders also agreed to make available a credit facility in an amount not to exceed \$51,284. As at December 31, 2015, an amount of \$31,585 had been used to secure two letters of credit. This debt is secured by the assets of Mesgi'g Ugju's'n (MU) Wind Farm L.P. with a carrying value of approximately \$192,500.

## **q. Boulder Creek and Upper Lillooet River**

On March 17, 2015, Boulder Creek Power Limited Partnership and Upper Lillooet River Power Limited Partnership jointly closed a \$491,600 non-recourse construction and term project financing for the Boulder Creek and Upper Lillooet River run-of-river hydroelectric projects.

The loan comprises three facilities or tranches:

- A \$191,600 construction loan carrying a fixed interest rate of 4.22%; following the start of the facilities' commercial operation, it will convert into a 25-year term loan and the principal will be amortized over a 20-year period, starting in the sixth year. As at December 31, 2015, an amount of \$172,207 had been drawn from this tranche;
- A \$250,000 construction loan carrying a fixed interest rate of 4.46%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and the principal will begin to be amortized after the 25-year term loan's maturity. As at December 31, 2015, an amount of \$227,938 had been drawn from this tranche;
- A \$50,000 construction loan carrying a fixed interest rate of 4.46%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and its principal will be reimbursed at maturity. As at December 31, 2015, an amount of \$45,588 had been drawn from this tranche.

This debt is secured by the assets of Boulder Creek Power L.P. and Upper Lillooet River Power L.P. with a carrying value of approximately \$464,000.

## **r. Big Silver Creek**

On June 22, 2015, Big Silver Creek Power Limited Partnership closed a \$197,223 non-recourse construction and term project financing for the Big Silver Creek River run-of-river hydroelectric project.

The loan comprises three facilities or tranches:

- A \$51,012 construction loan carrying a fixed interest rate of 4.57%; following the start of the facilities' commercial operation, it will convert into a 25-year term loan and the principal will begin to be amortized over an 18-year period starting in the seventh year;
- A \$128,311 construction loan carrying a fixed interest rate of 4.76%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and the principal will be amortized after the 25-year term loan reaches maturity;
- A \$17,900 construction loan carrying a fixed interest rate of 4.76%; following the start of the facilities' commercial operation, it will convert into a 40-year term loan and its principal will be reimbursed at maturity.

This debt is secured by the assets of Big Silver Creek Power L.P. with a carrying value of approximately \$190,700.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## s. Harrison Operating Facilities, Senior Real Return bond

The Harrison Operating Facilities Senior Real Return bond bears interest at 2.96% adjusted by an inflation ratio as well as an inflation compensation interest factor. Both inflation adjustments are based on the All-items Consumer Price Index for Canada ("CPI"), which is not seasonally adjusted. Payments on this bond are due semi-annually and the bond matures in June 2049. Semi-annual payments are \$5,790 before CPI adjustment (\$6,595 including CPI adjustment in 2015). In December 2031, the payment amount decreases to \$4,481 before CPI adjustment, where it remains until maturity. For 2016, the principal repayments are set at \$5,751. The bond is secured by the Harrison Operating Facilities.

## t. Harrison Operating Facilities, Senior Fixed Rate bond

The Harrison Operating Facilities Senior Fixed Rate bond bears interest at 6.61%. Payments on this bond are due semi-annually with the bond maturing in September 2049. Semi-annual payments amount to \$8,072. In September 2031, the payment amount decreases to \$6,724, where it remains until maturity. For 2016, the principal repayments are set at \$3,278. The bond is secured by the Harrison Operating Facilities.

## u. Harrison Operating Facilities, Junior Real Return bond

The Harrison Operating Facilities Junior Real Return Rate bond bears interest at 4.27% adjusted by an inflation ratio and an inflation compensation interest factor. Both inflation adjustments are based on the CPI, which is not seasonally adjusted. Payments on this bond are due quarterly and the bond matures in September 2049. Quarterly interest payments amount to \$291 before CPI adjustment (\$331 including CPI adjustment in 2015).

In June 2017, the payment amount increases to \$389 before CPI adjustment, where it remains until maturity. Principal repayment does not commence until June 2017. The bond is secured by the Harrison Operating Facilities.

## v. Summary of Harrison Operating Facilities

The bonds are secured by the Harrison Operating Facilities. The carrying value of the property and assets of the Harrison Operating Facilities totals approximately \$643,100.

	Senior Real Return Bond	Senior Fixed Rate Bond	Junior Real Return Bond	Total
Balance – January 1, 2015	225,014	209,485	27,820	462,319
Inflation compensation interest	2,619	—	318	2,937
Principal repayment	(5,563)	(3,103)	—	(8,666)
Amortization of revaluation	1,321	759	84	2,164
Balance – December 31, 2015	223,391	207,141	28,222	458,754

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

### Principal repayments

The principal repayments for the next years, excluding the revaluations, will be as follows:

	Principal repayments			Long-term debt
	Recourse to the Corporation	Non-recourse to the Corporation	Amortization of revaluation	
2016	—	53,537	(489)	53,048
2017	—	89,901	(595)	89,306
2018	—	44,152	(687)	43,465
2019	149,138	44,401	(788)	192,751
2020	—	48,826	(868)	47,958
Thereafter	—	1,856,851	(41,061)	1,815,790
	149,138	2,137,668	(44,488)	2,242,318

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 24. OTHER LIABILITIES

Other liabilities, including amounts shown in current liabilities, consist of contingent considerations, asset retirement obligations and interests payable on SM-1 LP debenture relating to the Corporation's facilities.

	Contingent considerations	Asset retirement obligations	Interests payable on SM-1 LP debenture	Total
<b>As at January 1, 2015</b>	5,458	6,828	1,766	14,052
Interest expense included in finance cost	—	—	3,593	3,593
Accretion expense included in finance cost	280	329	—	609
Realized gain on contingent considerations	(3,447)	—	—	(3,447)
Revisions in estimated cash flows	—	(888)	—	(888)
Payment of contingent considerations	(244)	—	—	(244)
<b>As at December 31, 2015</b>	2,047	6,269	5,359	13,675
Current portion of other liabilities	(246)	—	—	(246)
Long-term portion of other liabilities	1,801	6,269	5,359	13,429

	Contingent considerations	Asset retirement obligations	Interests payable on SM-1 LP debenture	Total
<b>As at January 1, 2014</b>	5,464	5,465	—	10,929
Interest expense included in finance cost	—	—	1,766	1,766
Accretion expense included in finance cost	355	266	—	621
Revisions in estimated cash flows	—	1,097	—	1,097
Payment of contingent considerations	(361)	—	—	(361)
<b>As at December 31, 2014</b>	5,458	6,828	1,766	14,052
Current portion of other liabilities	(244)	—	—	(244)
Long-term portion of other liabilities	5,214	6,828	1,766	13,808

### a. Contingent considerations

An acquisition realized in 2011 provides for the potential payment of additional amounts to the vendors over a period commencing on the acquisition date and ending on the 40th anniversary of the last project under development to achieve commercial operation (or to April 4, 2061 if earlier). The deferred payments are effectively intended to provide for a potential sharing of the value created if the projects perform better than the Corporation's expectations and would result in incremental accretion to the Corporation, net of these payments. The maximum aggregate amount of all deferred payments under this acquisition is limited to a present value amount of \$35,000 as at the acquisition date. During the year 2015, the Corporation recognized an impairment on Project development costs although the Corporation still owns rights over the sites. Simultaneously, the contingent considerations related to these projects were reversed resulting in a realized gain of \$3,447.

In connection with the Magpie Acquisition, the Corporation assumed an obligation to pay contingent consideration to the Minganie Regional County Municipality until the convertible debenture issued by Magpie L.P. is converted. Upon conversion, the Minganie Regional County Municipality will be entitled to a participation of 30% in Magpie L.P.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## b. Asset retirement obligations

Asset retirement obligations primarily arise from obligations to retire wind farms and solar facility upon expiry of the site leases. The wind farm facilities and solar facility were constructed on sites held under leases expiring 25 years after the signing date. The Corporation estimates that the undiscounted value of the payments required for settling the obligations over a 25-year period will be as follows:

Year of expected payments	
2031	2,592
2032	2,466
2033	2,748
2036	1,542
2037	6,243
	15,591

The cash flows were discounted at rates between 4.69% to 5.03% as at December 31, 2015 (3.86% to 4.39% in 2014) to determine the obligations.

## c. Interests payable on SM-1 LP debenture

In connection with the acquisition of the SM-1 facility in 2014, Desjardins subscribed to a debenture issued by SM-1 LP for total proceeds of approximately \$40,901. In December 2014, an additional \$1,500 was subscribed to the debenture issued by SM-1 LP for a total amount of \$42,401. This debenture carries an interest rate of 8.00%, has no predetermined repayment schedule and matures in 2064. Unpaid interests are compounded and are recorded in other long term liabilities.

## 25. CONVERTIBLE DEBENTURES

### a. Redemption of 5.75% convertible debentures

During the first quarter of 2015, the convertible debentures were decreased by an aggregate amount of \$922 further to the exercise by debentures holders of their conversion privileges. As a result, 922 debentures have been converted into 86,571 common shares.

On July 20, 2015, the Corporation issued a redemption notice in respect of the aggregate principal amount of \$79,578 of the 5.75% convertible debentures that was outstanding. Of that principal amount, \$37,987 was converted at the holders' request into 3,566,851 common shares of the Corporation at a conversion price of \$10.65 per share. The remaining \$41,591 was redeemed at a price of a thousand dollars per convertible debenture, plus accrued and unpaid interest up to August 19, 2015 inclusively, and was financed with drawings under the Corporation's revolving term credit facility.

The convertible debentures bore interest at an annual rate of 5.75% and matured on April 30, 2017. Interest was payable semi-annually on April 30 and October 31 of each year. Each convertible debenture was convertible into common shares of the Corporation at the option of the holder at any time prior to the earlier of April 30, 2017 and the redemption date specified by the Corporation. The conversion price was \$10.65 per common share (the "Conversion Price"), being a conversion rate of approximately 93.8967 common shares per each thousand of dollars of principal amount of convertible debentures.

### b. Issuance of 4.25% convertible debentures

On August 10, 2015, the Corporation issued an aggregate principal amount of \$100,000 of 4.25% convertible debentures at a price of a thousand dollars per convertible debenture, bearing interest at a rate of 4.25% per annum, payable semi-annually on August 31 and February 28 each year, commencing on February 28, 2016. The convertible debentures will be convertible at the holder's option into common shares of the Corporation at a conversion price of \$15.00 per share,

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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representing a conversion rate of 66.6667 common shares per each thousand dollars of principal amount of convertible debentures. The convertible debentures will mature on August 31, 2020 and will not be redeemable before August 31, 2018, except in certain limited circumstances. On or after August 31, 2018, and before August 31, 2019, Innergex may redeem the Debentures at par plus accrued and unpaid interest, in certain circumstances. On or after August 31, 2019, Innergex may redeem the debentures at par plus accrued and unpaid interest.

The convertible debentures are subordinated to all other indebtedness of the Corporation.

Proceeds from issue of 4.25% convertible debentures	100,000
Transaction costs	(4,575)
Net proceeds	95,425
Amount classified as equity (\$1,877 net of \$673 of deferred income taxes)	(2,550)
Liability component of convertible debentures at the time of issuance (effective interest rate of 6.09%)	92,875
Accretion of convertible debentures	555
Liability component of convertible debentures	93,430

The liability portion is being accreted such that the liability at maturity will equal the face value less prior conversions if any.

## 26. SHAREHOLDERS' CAPITAL

### Authorized

The authorized capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, non-voting, retractable and redeemable. This includes up to 3,400,000 Cumulative Rate Reset Preferred Shares, Series A (the "Series A Preferred Shares"), up to 3,400,000 Cumulative Floating Rate Preferred Shares, Series B (the "Series B Preferred Shares") and up to 2,000,000 Cumulative Redeemable Fixed Rate Preferred Shares, Series C (the "Series C Preferred Shares").

### a) Common shares

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

#### Buyback of common shares

In March 2015, the Corporation announced the approval from the Toronto Stock Exchange to renew its normal course issuer bid. Under the bid, the Corporation was entitled to purchase for cancellation up to 1,000,000 of its common shares. In September 2015, the entitlement was increased to 2,000,000 of common shares. In August 2015, the Corporation began to purchase for cancellation its common shares. Up to December 31, 2015, 1,190,173 common shares have been purchased and cancelled at an average price of \$10.36.

#### 5.75% Convertible debentures converted in common shares

During the first and the third quarter of 2015, the 5.75% convertible debentures were decreased by an aggregate amount of \$38,909 further to the exercise by debentures holders of their conversion privileges. As a result, 38,909 debentures have been converted into 3,653,422 common shares.

### b) Contributed surplus from reduction of capital account on common shares

Special resolutions to approve the reduction of the legal stated capital account maintained in respect of the common shares of the Corporation, without any payment or distribution to the shareholders were adopted in prior years. This

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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resulted in a decrease of the shareholders' capital account and an equivalent increase of the contributed surplus from reduction of capital on common shares account.

## c) Preferred shares

### **Series A Preferred Shares**

On September 14, 2010, the Corporation issued a total of 3,400,000 Series A Preferred Shares at \$25.00 per share for aggregate gross proceeds of \$85,000. The holders of Series A Preferred Shares are entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board of Directors. The dividends are payable quarterly on the 15th day of January, April, July and October in each year. For the initial five-year period to, but excluding January 15, 2016 (the "Initial Fixed Rate Period"), the dividends were payable at an annual rate equal to \$1.25 per share. The annual dividend rate for the five-year period starting January 15, 2016, equal \$0.902 per share.

For each five-year period after the Initial Fixed Rate Period (each a "Subsequent Fixed Rate Period"), the holders of the Series A Preferred Shares will be entitled to receive fixed cumulative preferential cash dividends as and when declared by the Board of Directors. The dividends will be payable quarterly in an annual amount per Series A Preferred Share equal to the sum of the yield on a Government of Canada bond with a five-year term to maturity on the applicable fixed rate calculation date, plus 2.79% applicable to such Subsequent Fixed Rate Period multiplied by \$25.00.

Each holder of Series A Preferred Shares will have the right, at its option, to convert all or any of its Series A Preferred Shares into the Series B Preferred Shares of the Corporation on the basis of one Series B Preferred Share for each Series A Preferred Share converted, subject to certain conditions, on January 15, 2016, and on January 15 every five years thereafter. The holders of Series B Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends as and when declared by the Board of Directors. The dividends will be payable quarterly in an annual amount per Series B Preferred Share equal to the Treasury Bill rate for the preceding quarterly period plus 2.79% per annum determined on the 30th day prior to the first day of the applicable quarterly floating rate period multiplied by \$25.00.

The Series A Preferred Shares were not redeemable by the Corporation prior to January 15, 2016. None were redeemed at that date. The next redemption date is January 15, 2021, and on January 15 every five years thereafter, at which time, the Corporation may, at its option, redeem all or any number of the outstanding Series A Preferred Shares.

### **Series C Preferred Shares**

On December 11, 2012, the Corporation issued a total of 2,000,000 Series C Preferred Shares at \$25.00 per share for aggregate gross proceeds of \$50,000. Holders of the Series C Preferred Shares will be entitled to receive fixed cumulative preferential cash dividends as and when declared by the Corporation's Board of Directors. The dividends will be payable quarterly on the 15th day of January, April, July and October in each year at an annual rate equal to \$1.4375 per share. The Series C Preferred Shares will not be redeemable by the Corporation prior to January 15, 2018. The Series C Preferred Shares do not have a fixed maturity date and are not redeemable at the option of the holders.

## d) Share-based payment

### **Stock option and performance share plans**

The Corporation has a stock option plan and performance share plan. The share-based payments expense is accounted under fair value method. In accordance with this method, the stock options and the performance shares are measured at the fair value of the equity instruments at the date of grant.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The maximum number of common shares of the Corporation available for issuance pursuant to options granted under the stock option plan is 4,064,123. Any common shares subject to an option that expires or terminates without having been fully exercised may be subject to a further option. The number of common shares issuable to non-executive directors of the Corporation under the stock option plan cannot at any time exceed 1% of the issued and outstanding common shares.

Options must be exercised during a period established by the Board of Directors, which may not be greater than 10 years after the date of grant. Options granted under the stock option plan vest in equal amounts on a yearly basis over a period of four to five years following the grant date.

During the year of 2015, 45,000 share options have been exercised at \$8.75 per share resulting in a \$394 proceed.

The following table summarizes outstanding stock options of the Corporation as at December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Number of options (000's)	Weighted average exercise price (\$)	Number of options (000's)	Weighted average exercise price (\$)
Outstanding - beginning of year	3,470	10.07	3,073	9.95
Granted during the year	—	—	397	10.96
Exercised during the year	(45)	8.75	—	—
Canceled during the year	—	—	—	—
Outstanding - end of year	3,425	10.09	3,470	10.07
Options exercisable - end of year	2,830	10.04	2,252	10.08

The following options were outstanding and exercisable as at December 31, 2015:

Year of granting	Number of options outstanding (000's)	Exercise price (\$)	Number of options exercisable (000's)	Year of maturity
2007	846	11.00	846	2017
2011	770	9.88	770	2018
2012	397	10.70	298	2019
2010	618	8.75	618	2020
2013	397	9.13	198	2020
2014	397	10.96	100	2021
	3,425		2,830	

The Corporation applies the fair value method of accounting for options granted to senior management, which is estimated using the Black-Scholes option-pricing model. Share-based payments are expensed and a credit is made to the share-based payment account in the equity of the Corporation to account for the options granted.

The following assumptions were used to estimate the fair value of the options issued to grantees during the year:

	December 31, 2014
Risk-free interest rate	1.52%
Expected annual dividend per common share	\$0.6
Expected life of options	6 years
Expected volatility	15.84%
Fair value of options granted	\$0.57



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For the purpose of compensation expense, stock-based compensation is amortized to expenses on a straight-line basis over the vesting period of a maximum of five years. The weighted average contractual life of the outstanding stock options is five years. Expected volatility is estimated by considering historic average share price volatility.

## **e) Dividend Reinvestment Plan ("DRIP")**

The Corporation implemented a DRIP for its shareholders. On August 5, 2015, the Corporation elected to eliminate the 2.5% discount applicable to the purchase price of shares issued to shareholders participating in the DRIP that was elected on May 13, 2014. The plan allows eligible common shareholders the opportunity to reinvest a portion or all of the dividends they receive to purchase additional common shares of the Corporation, without paying fees such as brokerage commissions and service charges. Shares will either be purchased on the open market or issued from treasury.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 27. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Foreign exchange gain (loss) on the designated portion of the US dollar denominated debt used as hedge on the investment in self-sustaining foreign subsidiaries	Foreign exchange gain (loss) on translation of self-sustaining foreign subsidiaries	Foreign exchange gain (loss) on the designated portion of the US dollar denominated debt used as hedge on the investment in self-sustaining foreign subsidiaries	Net currency translation reserve	Cash flow hedge interest rate risk	Share of cash flow hedge interest rate risk of joint venture	Total
Balance as at January 1, 2015	409	(171)	238	(253)	—	—	(15)
Exchange differences on translation of foreign operations	1,689	—	1,689	—	—	—	1,689
Hedging (loss) gain of the reporting period	—	(1,610)	(1,610)	(2,267)	64	64	(3,813)
Related deferred tax	(223)	212	(11)	590	(16)	(16)	563
Balance as at December 31, 2015	1,875	(1,569)	306	(1,930)	48	48	(1,576)

	Foreign exchange gain (loss) on the designated portion of the US dollar denominated debt used as hedge on the investment in self-sustaining foreign subsidiaries	Foreign exchange gain (loss) on translation of self-sustaining foreign subsidiaries	Foreign exchange gain (loss) on the designated portion of the US dollar denominated debt used as hedge on the investment in self-sustaining foreign subsidiaries	Net currency translation reserve	Cash flow hedge interest rate risk	Share of cash flow hedge interest rate risk of joint venture	Total
Balance as at January 1, 2014	(148)	392	244	—	—	—	244
Exchange differences on translation of foreign operations	642	—	642	—	—	—	642
Hedging loss of the reporting period	—	(648)	(648)	(343)	—	—	(991)
Related deferred tax	(85)	85	—	90	—	—	90
Balance as at December 31, 2014	409	(171)	238	(253)	—	—	(15)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	Year ended December 31	
	2015	2014
Accounts receivable and income tax receivable	(1,730)	(15,463)
Prepaid and others	913	(183)
Accounts payable and other payables and income tax liabilities	9,092	2,428
	8,275	(13,218)

### b. Additional information

	Year ended December 31	
	2015	2014
Interest paid (including \$29,243 capitalized interest (\$4,238 in 2014))	100,985	78,712
<i>Non-cash transactions</i>		
in unpaid property, plant and equipment	7,215	25,919
in unpaid development costs	(4,218)	(6,812)
in unpaid transactions costs of convertible debentures	102	—
in common shares issued through the conversion of convertible debentures	(40,521)	—
in common shares issued through share options exercised	(68)	—
loans to related parties	—	(6,798)
variation in discounted rates in asset retirement obligations	(888)	1,097
in common shares issued through dividend reinvestment plan	(8,172)	(10,191)
intangible acquired in exchange of a non-controlling interest in a subsidiary	(325)	—
loans to partners in exchange of non-controlling interests in subsidiaries	(133)	—
acquisition of assets for a project under development in exchange of the increase of a non-controlling interest in a subsidiary	—	(2,300)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 29. SUBSIDIARIES

### 29.1 General information of subsidiaries

Details of the Corporation's material subsidiaries at the end of the reporting period are set out below.

Name of subsidiaries	Principal activity	Place of creation and operation	Proportion of ownership interest and voting rights held by the Corporation	
			December 31, 2015	December 31, 2014
Harrison Hydro L.P. and its subsidiaries	Own and operate hydroelectric facilities	British Columbia	50.01%	50.01%
Creek Power Inc. and its subsidiaries	Develop, construct, own and operate hydroelectric facilities	British Columbia	66.67%	66.67%
Kwoiek Creek Resources L.P. <sup>1</sup>	Own and operate a hydroelectric facility	British Columbia	50.00%	50.00%
Ashlu Creek Investments L.P.	Own and operate a hydroelectric facility	British Columbia	100.00%	100.00%
Innergex L.P.	Own and operate hydroelectric facilities	Québec	100.00%	100.00%
Big Silver Creek Power Limited Partnership	Develop, construct, own and operate hydroelectric facilities	British Columbia	100.00%	100.00%
Innergex Sainte-Marguerite S.E.C.	Own and operate a hydroelectric facility	Québec	50.01%	50.01%
Mesgi'g Ugju's'n (MU) Wind Farm L.P. <sup>2</sup>	Develop, construct, own and operate a wind facility	Québec	50.00%	50.00%

1. The Corporation owns more than 50% of the economic interest in Kwoiek Creek Resources L.P.

2. The Corporation owns more than 50% of the economic interest in Mesgi'g Ugju's'n (MU) Wind Farm L.P.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Corporation has subsidiaries, the principal activities of which are summarized as follows:

Principal activity	Principal place of business	Number of subsidiaries	
		December 31, 2015	December 31, 2014
Own or operate hydroelectric facilities	Québec	9	9
	Ontario	4	4
	British Columbia	24	22
	United States	1	1
		38	36
Own or operate wind farm facilities	Québec	10	10
Own or operate a solar facility	Ontario	2	2
Develop or construct hydroelectric facilities	British Columbia	6	8
	Québec	2	2
		8	10
Holdings and others	Québec	8	6
	Ontario	12	4
	British Columbia	12	10
	United States	2	2
	Europe	4	0
	Nova Scotia	2	2
		40	24
		98	82

## 29.2 Details of non-wholly-owned subsidiaries that have non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Corporation:

Name of subsidiaries	Place of creation and operation	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss) earnings allocated to non-controlling interests for the year ended		Accumulated non-controlling interests (deficit)	
		Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Harrison Hydro L.P. and its subsidiaries	British Columbia	49.99%	49.99%	(4,141)	(4,177)	65,395	76,984
Creek Power Inc. and its subsidiaries	British Columbia	33.33%	33.33%	(6,369)	(15,554)	(21,116)	(14,796)
Kwoiek Creek Resources, L.P. <sup>(1)</sup>	British Columbia	50.00%	50.00%	(2,386)	(852)	(10,372)	(7,986)
Mesgi'g Ugju's'n (MU) Wind Farm L.P. <sup>(1)</sup>	Québec	50.00%	50.00%	(3,123)	(7,559)	(8,862)	(5,259)
Innergex Sainte-Marguerite, S.E.C. <sup>(2)</sup>	Québec	49.99%	49.99%	(2,042)	(1,381)	(3,418)	(1,376)
Others	Various	Various	Various	(21)	(2)	280	(156)
				(18,082)	(29,525)	21,907	47,411

1. The Corporation owns more than 50% of the economic interest in the subsidiary.

2. Period of 195 days in 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Summarized financial information in respect of each of the Corporation's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

## Harrison Hydro L.P. and its subsidiaries

As at	December 31, 2015	December 31, 2014
<b>Summary Statements of Financial Position</b>		
Current assets	16,930	31,079
Non-current assets	631,521	646,421
	648,451	677,500
Current liabilities	15,653	19,582
Non-current liabilities	461,810	462,609
Equity attributable to owners	105,593	118,325
Non-controlling interests	65,395	76,984
	648,451	677,500
<b>Year ended December 31</b>		
	<b>2015</b>	<b>2014</b>
<b>Summary Statements of Earnings and Comprehensive Loss</b>		
Revenues	42,452	49,671
Expenses	51,880	59,215
Net loss and comprehensive loss	(9,428)	(9,544)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(5,287)	(5,367)
Non-controlling interests	(4,141)	(4,177)
	(9,428)	(9,544)
<b>Summary Statements of Cash Flows</b>		
Net cash inflow from operating activities	12,377	12,799
Net cash outflow from financing activities	(23,738)	(4,779)
Net cash (outflow) inflow from investing activities	(527)	1,534
Net (decrease) increase in cash and cash equivalents	(11,888)	9,554
Distributions paid to non-controlling interests	7,448	6,798

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Creek Power Inc. and its subsidiaries

As at	December 31, 2015	December 31, 2014
<b>Summary Statements of Financial Position</b>		
Current assets	182,681	8,707
Non-current assets	342,038	218,832
	524,719	227,539
<hr/>		
Current liabilities	59,716	78,882
Non-current liabilities	539,660	204,384
Deficit attributable to owners	(53,541)	(40,931)
Non-controlling interest deficit	(21,116)	(14,796)
	524,719	227,539
<hr/>		
<b>Year ended December 31</b>		
	<b>2015</b>	<b>2014</b>
<b>Summary Statements of Earnings and Comprehensive (loss) Income</b>		
Revenues	3,135	3,053
Expenses	22,212	49,641
Net loss	(19,077)	(46,588)
Other comprehensive income	147	—
Total comprehensive loss	(18,930)	(46,588)
<hr/>		
Net loss attributable to:		
Owners of the parent	(12,708)	(31,034)
Non-controlling interest	(6,369)	(15,554)
	(19,077)	(46,588)
<hr/>		
Total comprehensive loss attributable to:		
Owners of the parent	(12,610)	(31,034)
Non-controlling interest	(6,320)	(15,554)
	(18,930)	(46,588)
<hr/>		
<b>Summary Statements of Cash Flows</b>		
Net cash outflow from operating activities	(67,876)	(969)
Net cash inflow from financing activities	373,861	122,986
Net cash outflow from investing activities	(310,482)	(116,624)
Net (decrease) increase in cash and cash equivalents	(4,497)	5,393

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Kwoiek Creek Resources L.P.

As at	December 31, 2015	December 31, 2014
<b>Summary Statements of Financial Position</b>		
Current assets	6,946	28,098
Non-current assets	177,836	177,749
	184,782	205,847
<b>Summary Statements of Earnings and Comprehensive Income (loss)</b>		
Current liabilities	8,599	8,362
Non-current liabilities	196,430	213,399
Deficit attributable to owners	(9,875)	(7,928)
Non-controlling interest deficit	(10,372)	(7,986)
	184,782	205,847
<b>Summary Statements of Earnings and Comprehensive Income (loss)</b>		
	Year ended December 31	
	2015	2014
Revenues	18,553	17,969
Expenses	22,886	19,235
Net loss and comprehensive loss	(4,333)	(1,266)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(1,947)	(414)
Non-controlling interest	(2,386)	(852)
	(4,333)	(1,266)
<b>Summary Statements of Cash Flows</b>		
Net cash (outflow) inflow from operating activities	(13,990)	2,255
Net cash outflow from financing activities	(57)	(98)
Net cash inflow (outflow) from investing activities	18,562	(2,986)
Net increase (decrease) in cash and cash equivalents	4,515	(829)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Mesgi'g Ugju's'n (MU) Wind Farm L.P.

In 2014, the Mi'gmaq partner invested an amount of \$2,300 in preferred units of the Mesgi'g Ugju's'n (MU) Wind farm L.P. This is reflected in the non-controlling interest account.

As at	December 31, 2015	December 31, 2014
<b>Summary Statement of Financial Position</b>		
Current assets	97,923	4,907
Non-current assets	100,966	11,807
	198,889	16,714
Current liabilities	6,535	21,688
Non-current liabilities	155,434	1,140
Equity (deficit) attributable to owners	45,302	(855)
Non-controlling interest deficit	(8,382)	(5,259)
	198,889	16,714
<b>Summary Statement of Earnings and Comprehensive loss</b>		
Revenues	—	—
Expenses	9,992	17,064
Net loss	(9,992)	(17,064)
Other comprehensive loss	(1,639)	—
Total comprehensive loss	(11,631)	(17,064)
Net loss attributable to:		
Owners of the parent	(6,869)	(9,505)
Non-controlling interest	(3,123)	(7,559)
	(9,992)	(17,064)
Total comprehensive loss attributable to:		
Owners of the parent	(8,028)	(9,505)
Non-controlling interest	(3,603)	(7,559)
	(11,631)	(17,064)
<b>Summary Statement of Cash Flows</b>		
Net cash (outflow) inflow from operating activities	(34,458)	278
Net cash inflow from financing activities	208,758	7,451
Net cash outflow from investing activities	(174,293)	(4,708)
Net increase in cash and cash equivalents	7	3,021

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Innergex Sainte-Marguerite, S.E.C. ("SM-1 LP")

In 2014, Desjardins invested an amount of \$5 in participating units of SM-1 LP. This is reflected in the non-controlling interest account.

As at	December 31, 2015	December 31, 2014
<b>Summary Statement of Financial Position</b>		
Current assets	1,476	2,286
Non-current assets	134,873	138,217
	136,349	140,503
Current liabilities	6,148	6,283
Non-current liabilities	120,552	120,485
Equity attributable to owners	13,067	15,111
Non-controlling interest deficit	(3,418)	(1,376)
	136,349	140,503

	Year ended December 31, 2015	Period of 195 days ended December 31, 2014
<b>Summary Statement of Earnings and Comprehensive loss</b>		
Revenues	10,562	4,821
Expenses	14,648	7,584
Net loss and comprehensive loss	(4,086)	(2,763)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(2,044)	(1,382)
Non-controlling interest	(2,042)	(1,381)
	(4,086)	(2,763)
<b>Summary Statement of Cash Flows</b>		
Net cash inflow (outflow) from operating activities	3,026	(233)
Net cash (outflow) inflow from financing activities	(2,308)	43,366
Net cash outflow from investing activities	(666)	(42,260)
Net increase in cash and cash equivalents	52	873

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 29.3 Financial support to structured entities

### ***Kwoiek Creek Resources L.P***

Based on the contractual arrangements between the Corporation and the other partner, the Corporation concluded that it has control over Kwoiek Creek Resources L.P.

The Corporation is responsible for financing approximately 20% of the capital costs and has loaned such amount or invested in preferred units of Kwoiek Creek Resources L.P. The Corporation invested a total of \$39,752 in preferred units of Kwoiek Creek Resources L.P. This investment provides the Corporation with revenues under the form of preferred distributions.

Kwoiek Creek Resources Inc., the other partner, can participate for an amount up to \$3,662 of subordinated debt.

Interests or distributions on the aggregate subordinated debt and preferred units will be payable annually subject to the availability of gross revenues. The interests or distributions on preferred units are payable before making any distributions on the common units.

### ***Mesgi'g Ugju's'n (MU) Wind Farm L.P***

Based on the contractual arrangements between the Corporation and the other partner, 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 \$2,300.

The Corporation invested a total of \$63,315 in preferred units of Mesgi'g Ugju's'n (MU) Wind Farm L.P. This investment provides the Corporation with revenues in the form of preferred distributions. The Mi'gmaq partner invested a total of \$2,300 in preferred units of the Mesgi'g Ugju's'n (MU) Wind farm L.P.

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

## 30. JOINT OPERATIONS

Name of entities	Principal activity	Place of creation and operation	Proportion of ownership interest and voting rights held by the Corporation	
			December 31, 2015	December 31, 2014
Innergex AAV, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Innergex BDS, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Innergex CAR, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Innergex GM, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Innergex MS, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Others	operate wind farm facilities	Quebec	50%	50%

(1). Each of the Limited Partnership owns a 38% ownership interest in the assets, liabilities, revenues and expenses and 50% voting rights of the joint operations.

## 31. RELATED PARTY TRANSACTIONS

Harrison Hydro L.P reimbursed the non-interest bearing term loans made by its partners in an amount of \$1,750 during the first quarter of 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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## 32. FINANCIAL INSTRUMENTS

### a. Fair value disclosures

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

As at December 31, 2015, the Corporation determined that the carrying values of its current financial assets and liabilities approximated their fair values due to these instruments' short term maturity.

As at December 31, 2015, the Corporation determined that the carrying values of its short-term investments and government-backed securities included in reserve accounts approximated their fair values due to these instruments short-term maturity.

The fair value of each debt instrument is estimated utilizing standard financial industry practices where future expected cash flows are discounted at discount rates based on the interest rate and credit conditions prevailing in the financial markets as of the valuation date. Notably, for fixed rate instruments, contractual cash flows are discounted at an appropriate yield to maturity. For floating rate instruments, future expected contractual interest rates represent the sum of future expected levels of the reference interest rate index and the instrument's quoted margin whereas discount rates represent the sum of future expected levels of the reference index and an appropriate discount margin. Appropriate yields to maturity and discount margins are estimated utilizing the available quoted or indicative pricing of individual debt instruments or indices whose credit is deemed comparable to the debt instruments being evaluated.

The carrying values of the floating rate long-term debts are approximately \$67,032 lower than their estimated fair values based on the swap interest curve on December 31, 2015. The carrying values of the fixed-rate debts, the bonds and the debentures are approximately \$32,521 lower than their estimated fair market values based on the swap interest curve on December 31, 2015. All of these are estimated using Level 2 valuation techniques.

Financial assets or liabilities measured at fair value are derivative financial instruments which are level 3 for PPAs inflation provision and embedded derivative and level 2 for interest rate swap, bond forward contracts and foreign exchange forwards contracts.

### b. Interest rate risk

The Corporation entered into fixed rate debts or hedge agreements to mitigate the risk of fluctuations in the interest rates on its non-recourse long-term debt. It also use hedge agreements on a portion of its revolving credit term facility.

During 2015, the Corporation has entered into new interest rate swaps contracts for a notional amount of \$49,250 and \$103,000 maturing in 2017 and 2026 respectively at a weighted average rate of 0.96% and 1.91%, to manage its risk on the Mesgi'g Ugju's'n long-term debt.

The interest hedging instruments and related risks are described in detail in Note 10.

### c. Credit risk

Credit risk relates to the possibility that a loss may occur from a party's failure to comply with contractual requirements.

Cash and cash equivalents are mainly held at large Canadian financial institutions and, to a lesser degree, at major U.S. financial institutions.

The financial derivatives and related risks are described in detail in Note 10.

The accounts receivable and related risks are described in detail in Note 16.

The reserve accounts and related risks are described in detail in Note 17.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## d. Liquidity risk

Liquidity risk relates to the capacity of the Corporation to meet liabilities as they become due. Certain covenants of long-term borrowing contracts could prevent the Corporation from repatriating funds from certain subsidiaries.

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

The Corporation has a positive working capital of \$212,177 as at December 31, 2015 (negative working capital of \$17,387 in 2014). If necessary, the Corporation can use its revolving credit term facility, as described in Note 23 a), of which \$180,359 was available as at December 31, 2015 (\$105,830 in 2014). In addition, in the event of lower revenue due to a decline in production or to a major equipment breakdown, the Corporation has available reserve accounts (as described in Note 17) and is covered by insurance plans. Accordingly, the Corporation believes its current working capital to be sufficient to meet all of its needs.

The following table presents the maturities of the financial liabilities:

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years
Dividends payable to shareholders	17,892	—	
Accounts payable and other payables	6,619	88,847	
Income tax liabilities	768	466	
Current portion of derivative financial instruments	3,641	11,696	
Current portion of long-term debt	9,565	45,430	
Current portion of other liabilities	—	246	
Derivative financial instruments			41,078
Long-term debt			373,481
Other liabilities			3,208
Liability portion of convertible debentures			93,430
<b>Total</b>	<b>38,485</b>	<b>146,685</b>	<b>511,197</b>

The maturities are determined based on the expected terms of the payments.

## e. Market risk

Market risk is related to fluctuations in the fair value or future cash flows of a financial instrument because of market price variations. Market risk includes foreign exchange and interest rate risks, described under separate headings, and other price risks.

The sale of electricity is made pursuant to long-term agreements where the offtakers are committed to take and pay for the total production, up to certain annual limits. The inflation clauses of the sale price of electricity are normally allowing the Corporation to cover its increase of variable operation expenses. The inflation clauses included in some of the electricity purchasing contracts with Hydro-Québec are limited to a maximum of 6% per year.

## f. Foreign exchange risk

The foreign exchange risk relates to fluctuations in the U.S. dollar and Euro against the Canadian dollar.

The Corporation has subsidiaries in the United States for which the revenues, net of the expenses incurred, are repatriated to Canada. A portion of the Corporation's debts is denominated in U.S. dollars. Repatriated funds that are not used to service the U.S. dollar-denominated debt are converted into Canadian dollars at the exchange rate in effect on the conversion date. The Corporation's net risk is estimated to be \$24 for each 1% increase in the value of

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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the Canadian dollar against the U.S. dollar. The Corporation uses a portion of its U.S. dollar-denominated debt to hedge its investment in its subsidiaries, as described in Note 10.

## 33. COMMITMENTS AND CONTINGENCIES

In addition to the commitments of the Joint Venture presented in note 9, the Corporation entered into the following transactions:

### a. Power Purchase Agreements

#### Quebec facilities

Under PPAs with terms varying from 20 to 25 years and expiring between 2016 and 2034, Hydro-Québec agreed to purchase all of the electrical energy provided by the facilities and wind farms located in the Province of Quebec. Certain facilities have an agreed maximum quantity of electricity and a minimum quantity of electricity to deliver during each of the consecutive 12-month periods. All of the hydroelectric facilities, at the exception of the Magpie facility, can renew their PPAs for identical periods.

Total revenues from Hydro-Québec amounted to \$104,110 in 2015 (\$94,668 in 2014), representing 42% of the Corporation's revenues (39% in 2014). The Corporation is economically dependent on Hydro-Québec given the size of its revenues.

#### British Columbia facilities

Under PPAs with terms varying from 20 to 40 years and expiring between 2016 and 2055, British Columbia Hydro and Power Authority agreed to purchase all of the electrical energy provided by the facilities located in the Province of British-Columbia.

Total revenues from British Columbia Hydro and Power Authority amounted to \$104,293 in 2015 (\$107,195 in 2014) representing 42% of the Corporation's revenues (44% in 2014). The Corporation is economically dependent on British Columbia Hydro and Power Authority given the size of its revenues.

#### Ontario facilities

Under PPAs with terms varying from 20 to 30 years and expiring between 2025 and 2032, Hydro One inc. and its affiliates agreed to purchase all of the electrical energy provided by the facilities located in Ontario.

Total revenues from the Ontario facilities amounted to \$21,228 (\$22,366 in 2014) representing 9% of the Corporation's revenues (9% in 2014).

#### Idaho facility

Under a PPAs with a 35-year term and expiring in 2030, Idaho Power Company agreed to purchase all of the electricity provided by Horseshoe Bend Hydroelectric Corporation.

Total revenues from Idaho Power Company amounted to \$3,826 in 2014 (\$3,398 in 2014), representing 2% of the Corporation's revenues (1% in 2014).

### b. Other Commitments

#### Wind farm facilities

The Corporation and its subsidiaries entered into royalties and other commitments related to amounts to set aside for the dismantling of wind farm components, commitments to surrounding municipalities and land owners and the operation of the wind farms.

Subsidiaries and/or joint ventures are also committed under options on leases for projects under development.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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## **Mesgi'g Ugju's'n (MU) Wind Farm L.P.**

Mesgi'g Ugju's'n (MU) Wind Farm L.P. entered into various contracts for the construction of a wind farm.

## **Ashlu Creek facility**

Ashlu Creek Investments Limited Partnership has royalties agreements based on a percentage of gross revenues. The ownership of the assets of the project will be transferred to a First Nation on the 40th anniversary of the commercial operation date for a nominal financial consideration.

## **Big Silver Creek facility**

Big Silver Creek Power L.P. entered into several contracts for the construction of a hydroelectric power-generating facility.

## **Boulder Creek facility**

Boulder Creek LP entered into several contracts for the construction of a hydroelectric power-generating facility.

## **Brown Miller facilities**

Brown Miller Power L.P. has several royalties agreements based on a percentage of gross revenues or on production.

## **Glen Miller facility**

Glen Miller Power, Limited Partnership entered into a 30-year lease agreement, ending in December 2035, for the site that is in commercial operation. The lease has a 15-year extension option upon terms and conditions to be negotiated.

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

## **Harrison Hydro L.P.**

The ownership of Douglas Creek Project L.P. and Tipella Creek Project L.P. will be transferred to a First Nation on the 60<sup>th</sup> anniversary of the commercial operation date for no financial consideration.

Harrison Hydro L.P. entered into agreements to pay annual royalties based on a percentage of the gross revenues.

## **Kwoiek Creek facility**

Royalty agreement

Kwoiek Creek Resources L.P. entered into agreements to pay annual royalties, which are based on a percentage of the gross revenues, less operation costs.

Partnership agreement

40 years after the beginning of the operations, the Corporation's ownership will be transferred to the other partner. Subsequently, the Corporation will receive a royalty based on a percentage of the gross revenues less operation costs.

## **Magpie facility**

Magpie Limited Partnership has several royalties agreements based on gross revenues or on production.

## **Northwest Stave facility**

Northwest Stave River Hydro LP, entered into agreements to pay annual royalties based on a percentage of the gross revenues.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Rutherford Creek facility

Rutherford L.P. agreed to make payments to the former owners, following the expiry of the Rutherford Creek PPA. This payment is based on the difference between the then selling price of electricity and the last selling price of electricity under the agreement, adjusted annually following the expiry of the agreement by 50% of the increase or decrease in the CPI over the previous 12 months. This amount will correspond to 35% of the gross revenues attributable to the difference for the 20-year period following the expiry of the power purchase agreement. After the 20-year period, that portion of the payment will correspond to 30% of the gross revenues attributable to the difference. This commitment is secured by the Rutherford L.P. facility but is subordinated to the \$39,378 term loan described in Note 23 g).

## Stardale Solar LP

Stardale Solar LP entered into a contract for the operations and maintenance of the solar farm.

## Tretheway facility

Royalty agreement

Tretheway Creek Power LP, entered into agreements to pay annual royalties based on gross revenues.

Partnership agreement

50% of the ownership will be transferred to a First Nation on the 40th anniversary of the commercial operation date for no financial consideration.

## Upper Lillooet facility

Upper Lillooet River LP entered into several contracts for the construction of a hydroelectric power-generating facility.

## Operating leases

The Corporation is engaged under long-term operating leases of premises which will expire between 2017 and 2020.

## Summary of commitments

As at December 31, 2015, the expected schedule of commitment payments is as follows:

Year of expected payment	Hydroelectric Generation	Wind Power Generation	Solar Generation	Site Development	Total
2016	124,962	24,676	10,674	359,036	519,348
2017	108,469	23,076	10,377	12,200	154,122
2018	111,026	22,829	10,027	10,548	154,430
2019	157,423	73,807	9,963	54,952	296,145
2020	108,593	21,956	9,911	103,995	244,455
Thereafter	3,324,804	335,976	92,545	25,199	3,778,524
Total	3,935,277	502,320	143,497	565,930	5,147,024

## Contingencies

The Corporation is subject to various claims that arise in the normal course of business. Management believes that adequate provisions have been made in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have an adverse effect on the financial position of the Corporation.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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## 34. CAPITAL DISCLOSURES

The Corporation's strategy in managing its capital is: (i) to develop or acquire high-quality power production facilities that generate sustainable and stable cash flows, with the objective of achieving a high return on invested capital, and (ii) to distribute a stable dividend.

The Corporation seeks to achieve its objectives by:

- Maintaining the generating capacity and enhancing the operation of its hydroelectric facilities, wind farms and solar farm; and
- Acquiring and developing new electricity-generating facilities.

The Corporation maintains its generating capacity by investing the necessary funds to maintain and continually upgrade its equipment. The Corporation also invests approximately \$1,300 on an annual basis in major maintenance reserve in order to fund any major maintenance of hydroelectric facilities, wind farms or solar farm which may be required to preserve the Corporation's generating capacity.

The Corporation determines the amount of capital required, and its allocation between debt and equity, for the acquisition and development of new electricity-generating facilities by considering the specific characteristics of stability and growth of each facility. This determination is made in order to distribute a stable dividend while maintaining an acceptable level of indebtedness.

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

The Corporation's capital is composed of long-term debt, convertible debentures and shareholders' equity. Total capital amounts to \$2,780,420 at year end.

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

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

Under the terms of the Revolving credit term facility described in Note 23 a), the Corporation needs to maintain, a leverage ratio and an interest coverage ratio. If the ratios are not met, the lender has the ability to recall the facility.

Regarding the respective non-recourse projects financing, some subsidiaries of the Corporation need to maintain minimum debt coverage ratios. If the ratios of a particular project financing are not met, the lenders could have the ability to recall the particular debt. Certain financial restrictive clauses could prevent the subsidiaries from making distributions to the Corporation.

All debt covenants are monitored on a regular basis by the Corporation. During the year, the Corporation and its subsidiaries met all the financial and non-financial conditions related to their credit agreements.

The Corporation's capital management objectives, policies and procedures are to ensure the stability and sustainability of the dividend payable to its shareholders and the development or acquisition of power production facilities. The objectives were identical in prior years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 35. SEGMENT INFORMATION

### Geographic segments

The Corporation owns interests in 26 hydroelectric facilities, six wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the year ended December 31, 2015, revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$3,826 (\$3,398 in 2014), representing a contribution of 1.5% ( 1.4% in 2014) to the Corporation's consolidated revenues for these periods.

### Major Customers

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

Major customer	Segment	Year ended December 31	
		2015	2014
British Columbia Hydro and Power authority	Hydroelectric generation	104,293	107,195
Hydro-Québec	Hydroelectric and wind power generation	104,110	94,668
		208,403	201,863

### 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, impairment of project development costs, other net expenses (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Year ended December 31, 2015					
Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Revenues	173,567	56,691	16,611	—	246,869
Expenses:					
Operating	30,696	9,512	730	—	40,938
General and administrative	7,747	3,497	153	2,791	14,188
Prospective projects	—	—	—	8,005	8,005
Earnings (loss) before finance costs, income taxes, depreciation, amortization, impairment of project development costs, other net expenses, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	135,124	43,682	15,728	(10,796)	183,738
Finance costs					83,130
Other net expenses					116,764
Loss before income taxes, depreciation, amortization, impairment of project development costs, share of earnings of joint ventures and unrealized net gain on derivative financial instruments					(16,156)
Depreciation					53,261
Amortization					22,217
Impairment of project development costs					51,719
Share of earnings of joint ventures					(1,562)
Unrealized net gain on derivative financial instruments					(81,368)
<b>Loss before income taxes</b>					<b>(60,423)</b>

As at December 31, 2015					
Goodwill	8,269	—	—	—	8,269
Total assets	1,806,873	332,698	114,543	874,189	3,128,303
Total liabilities	1,344,518	213,415	107,641	991,172	2,656,746
Acquisition of property, plant and equipment during the year	4,051	871	81	299,549	304,552

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Year ended December 31, 2014					
Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Revenues	171,029	53,971	16,834	—	241,834
Expenses:					
Operating	30,828	9,538	1,146	—	41,512
General and administrative	8,205	3,798	159	2,902	15,064
Prospective projects	—	—	—	5,696	5,696
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net expenses, share of loss of joint ventures and unrealized net loss on derivative financial instruments	131,996	40,635	15,529	(8,598)	179,562
Finance costs					86,537
Other net expenses					7,797
Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and unrealized net loss on derivative financial instruments					85,228
Depreciation					53,145
Amortization					20,947
Share of loss of joint ventures					701
Unrealized net loss on derivative financial instruments					121,685
Loss before income taxes					(111,250)

As at December 31, 2014					
Goodwill	8,269	—	—	—	8,269
Total assets	1,752,495	352,723	120,957	489,840	2,716,015
Total liabilities	1,241,530	238,450	111,814	561,996	2,153,790
Acquisition of property, plant and equipment during the year	123,185	549	161	223,405	347,300

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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## 36. 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 (\$)
02/24/2016	03/31/2016	04/15/2016	0.16	0.2255	0.359375

### b. Refinancing of Stardale long-term debt

On February 22, 2016, Stardale has renegotiated its long-term debt to increase its borrowing to \$109,000 and to reduce its applicable credit margin rate by 0.625%.

### c. Revolving term credit facility

On January 18, 2016, the Corporation executed an amending agreement to extend its revolving term credit facility from 2019 to 2020.



# INFORMATION FOR INVESTORS

## STOCK EXCHANGE LISTING

Innergex Renewable Energy Inc.'s securities are listed on the Toronto Stock Exchange (TSX).

	TSX SYMBOL
<b>Common shares</b>	<b>INE</b>
Series A Preferred Shares	INE.PR.A
Series C Preferred Shares	INE.PR.C
Convertible debentures	INE.DB.A

The Corporation is included in the following indices:

- S&P/TSX Composite Index
- S&P/TSX Composite Dividend Index
- S&P/TSX Composite High Dividend Index
- S&P/TSX SmallCap Index
- S&P/TSX Renewable Energy and Clean Technology Index

## COMMON SHARES (TSX: INE)

Innergex Renewable Energy Inc. had 103,938,636 common shares outstanding at December 31, 2015, with a closing price of \$11.33 per share. The Corporation's shares are listed on the Toronto Stock Exchange.

## SERIES A PREFERRED SHARES (TSX: INE.PR.A)

Innergex Renewable Energy Inc. currently has 3,400,000 Series A preferred shares outstanding, with a nominal value of \$25 and a fixed cumulative preferential annual cash dividend of \$0.902 per share, payable quarterly on the 15th day of January, April, July, and October. Series A preferred shares are not redeemable by the Corporation prior to January 15, 2021.

## SERIES C PREFERRED SHARES (TSX: INE.PR.C)

Innergex Renewable Energy Inc. currently has 2,000,000 Series C preferred shares outstanding, with a nominal value of \$25 and a fixed-rate cumulative preferential annual cash dividend of \$1.4375 per share, payable quarterly on the 15th day of January, April, July, and October. Series C preferred shares are not redeemable by the Corporation prior to January 15, 2018.

## CONVERTIBLE DEBENTURES (TSX: INE.DB.A)

Innergex Renewable Energy Inc. currently has convertible debentures outstanding for an aggregate principal amount of \$100.0 million, bearing interest at a rate of 4.25% per annum, payable semi-annually on February 28 and August 31 of each year, commencing on February 28, 2016. The debentures will be convertible at the holder's option into Innergex common shares at a conversion price of \$15.00 per share, representing a conversion rate of 66.6667 common shares per each

thousand dollars of principal amount of debentures. The debentures will mature on August 31, 2020 and will not be redeemable before August 31, 2018, except in certain limited circumstances. The convertible debentures are subordinated to all other indebtedness of the Corporation.

## CREDIT RATINGS

	STANDARD & POOR'S
Innergex Renewable Energy Inc.	BBB-
Series A Preferred Shares	P-3
Series C Preferred Shares	P-3

## TRANSFER AGENT AND REGISTRAR

For information concerning share certificates, dividend payments, a change of address, or electronic delivery of shareholder documents (such as quarterly and annual reports and proxy circulars), please contact the Corporation's transfer agent and registrar:

### Computershare Investor Services Inc.

1500 Robert-Bourassa Blvd, Suite 700  
Montreal, Quebec, Canada H3A 3S8  
Phone: 1 800 564-6253 or 514 982-7555  
Email: [service@computershare.com](mailto:service@computershare.com)  
Website: [computershare.com](http://computershare.com)

## DIVIDEND REINVESTMENT PLAN (DRIP)

Innergex Renewable Energy Inc. offers a Dividend Reinvestment Plan (DRIP) for its common shareholders. This plan 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 at [www.innergex.com](http://www.innergex.com) or contact the DRIP administrator, Computershare Trust Corporation of Canada. Please note that if you wish to enrol in the DRIP but own your shares indirectly through a broker or financial institution, you must contact this intermediary and ask them to enrol in the DRIP on your behalf.

## INDEPENDENT AUDITOR

Deloitte LLP

## COMMON SHARE DIVIDEND POLICY AND PAYMENT HISTORY

The Corporation intends to distribute an annual dividend of \$0.64 per common share, payable quarterly<sup>1</sup>. The Corporation's dividend policy is determined by its Board

of Directors and is based on the Corporation's results of operations, 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.

PAYMENT HISTORY	2015	2014	2013
First Quarter	\$0.155	\$0.150	\$0.145
Second Quarter	\$0.155	\$0.150	\$0.145
Third Quarter	\$0.155	\$0.150	\$0.145
Fourth Quarter	\$0.155	\$0.150	\$0.145
	\$0.620	\$0.600	\$0.580

<sup>1</sup> On February 24, 2016, the Board of Directors announced an increase in the annual dividend that the Corporation intends to distribute to common shareholders of \$0.02 to \$0.64 per common share, payable quarterly.

## STOCK CHART: JANUARY 1 - DECEMBER 31, 2015



## ANNUAL SHAREHOLDERS' MEETING

The annual shareholders' meeting will be held on Tuesday, May 10, 2016, at 4:00 p.m. EDT at the St. James's Club  
1145 Union Avenue, Montréal, Quebec H3B 3C2

Innergex Renewable Energy Inc.'s Notice of Annual Meeting of Shareholders and Management Information Circular - Solicitation of Proxies will be available no later than March 31, 2016, on the Investor page of our website. Hard copies will be available upon request.

## INVESTOR RELATIONS

To obtain additional financial information, corporate updates, or recent news releases and investor presentations, please contact:

### Jean Perron, CPA, CA

Chief Financial Officer  
Tel.: 450-928-2550, ext. 239, [jperron@innergex.com](mailto:jperron@innergex.com)

Or visit [www.innergex.com](http://www.innergex.com).

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Pour la version numérique, visitez notre site web à [www.innergex.com](http://www.innergex.com).

Pour la version papier, communiquez avec nous à [info@innergex.com](mailto:info@innergex.com).



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**INNERGEX**

Renewable Energy.  
Sustainable Development.