INNERGEX

INNERGEX RENEWABLE ENERGY INC.

# QUARTERLY REPORT 2018

FOR THE
PERIOD ENDED
**JUNE 30, 2018**

These condensed consolidated interim financial statements have not been audited by the Corporation's independent auditors.

Innergex Renewable Energy Inc. is a leading Canadian independent renewable power producer. Active since 1990, the Corporation develops, acquires, owns and operates hydroelectric facilities, wind farms, solar farms and geothermal power facilities and carries out its operations in Canada, the United States, France, Chile and Iceland. 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 and INE.DB.B.

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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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 three- and six-month periods ended June 30, 2018, and reflects all material events up to August 13, 2018, the date on which this MD&A was approved by the Corporation's Board of Directors.

The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and the accompanying notes for the three- and six-month periods ended June 30, 2018.

The unaudited condensed consolidated interim financial statements attached to this MD&A and the accompanying notes for the three- and six-month periods ended June 30, 2018, along with the 2017 comparative figures, have 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. Please refer to the "Non-IFRS Measures" section for more information.

All dollar amounts are in thousands of Canadian dollars, except amounts per share or unless otherwise indicated. Some amounts included in this MD&A have been rounded to make reading easier, which may affect some calculations.

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"). Please refer to the "Forward-Looking Information" section for more information.

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 sedar.com or on the Corporation's website at 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.

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# HIGHLIGHTS

- Production was 100% of the long-term average ("LTA") for the three-month period ended June 30, 2018.
- Revenues increased 37% to $149.5 million for the three-month period ended June 30, 2018 compared to the same period last year.
- Adjusted EBITDA rose 15% to $99.1 million for the three-month period ended June 30, 2018 compared to the same period last year.
- Innergex acquired the remaining interest in three hydro facilities in British Columbia on May 15, 2018.
- Innergex announced an exclusivity agreement with Energia Llaima for a joint venture partnership to acquire a 50% stake in the company and for the acquisition of the Duqueco hydro project in Chile pursuant to a successful bid process by this newly formed joint venture partnership. The partnership and acquisition were completed on July 3, 2018, and July 5, 2018, respectively.
- Innergex completed a $150 million convertible debenture offering on June 12, 2018.
- On July 2, 2018, Innergex acquired a 315 $MW_{DC}$ photovoltaic solar project located in Texas for which full notice to proceed with construction was issued on the same day.
- On August 2, 2018, Innergex announced a final agreement to acquire TransCanada's interest in the five Cartier wind farms, which transaction is expected to close in the fourth quarter of 2018.

## Financial Highlights

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| OPERATING RESULTS | | Restated [4] | | Restated [4] |
| Production (MWh) | 1,823,321 | 1,322,781 | 2,959,666 | 2,045,053 |
| Revenues | 149,541 | 109,530 | 267,422 | 184,056 |
| Adjusted EBITDA[1] | 99,127 | 85,920 | 178,470 | 136,861 |
| Innergex's share of Adjusted EBITDA of joint ventures and associates[1 2] | 14,125 | 2,897 | 17,547 | 5,147 |
| Adjusted EBITDA Proportionate[1] | 113,252 | 88,817 | 196,017 | 142,008 |
| Adjusted EBITDA Margin[1] | 66.3% | 78.4% | 66.7% | 74.4% |
| Net Earnings | 16,786 | 13,937 | 2,198 | 11,441 |
| Adjusted Net Earnings (Loss)[1] | 1,479 | 13,537 | (5,742) | 7,064 |
| COMMON SHARES | | | | |
| Dividends declared | 22,536 | 17,893 | 45,031 | 35,775 |
| Weighted Average Number of Common Shares (in 000s) | 132,523 | 108,431 | 127,586 | 108,386 |

| | Trailing twelve months ended June 30 | |
|---|---|---|
| | 2018 | 2017 |
| CASH FLOWS | | |
| Cash Flow From Operating Activities | 239,622 | 88,464 |
| Free Cash Flow[1 3] | 91,519 | 75,888 |
| Payout Ratio[1 3] | 88% | 93% |

1. Adjusted EBITDA, Innergex's share of Adjusted EBITDA of joint ventures and associates, Adjusted EBITDA Proportionate, Adjusted EBITDA Margin, Adjusted Net Earnings (Loss), Free Cash Flow and Payout Ratio are not recognized measures under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.
2. For more information on the calculation of Innergex's share of Adjusted EBITDA of joint ventures and associates, please refer to the "Investments in Joint Ventures and Associates" section.
3. 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.
4. For more information on the restatement, please refer to the "Accounting Changes" section.

| FINANCIAL POSITION | As at June 30, 2018 | As at December 31, 2017 Restated[1] |
|---|---|---|
| Total Assets | 5,577,408 | 4,190,456 |
| Non-Current Liabilities | 4,289,634 | 3,487,487 |
| Non-Controlling Interests | 334,214 | 14,920 |
| Equity Attributable to Owners | 711,057 | 441,205 |

1. For more information on the restatement, please refer to the "Accounting Changes" section.

# OVERVIEW

The Corporation is a developer, acquirer, owner and operator of renewable power-generating facilities with a focus on hydroelectric, wind power, geothermal power and solar power projects that benefit from 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:

- 68 facilities in commercial operation (the "Operating Facilities"). Commissioned between 1978 and March 2018, the facilities have a weighted average age of approximately 8.8 years. They mostly sell the generated power under long-term power purchase agreements, power hedge contracts or short- and long-term industrial and retail contracts (each, a "PPA") that have a weighted average remaining life of 16.6 years (based on gross long-term average production);
- Five projects scheduled to begin commercial operations between 2019 and 2022 (the "Development Projects");
- Numerous projects that have secured land rights, for which an investigative permit application has been filed or for which a proposal has 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.

  Some Prospective Projects are targeted toward specific future Requests for Proposals and other Prospective Projects are maintained or continue to advance and will be available for future requests for proposals yet to be announced or are targeted toward negotiated PPAs with public utilities or other retail, financial or commercial entities or other various arrangements in Canada or in other countries such as France, the United States, Chile and Iceland. These numerous Prospective Projects have a combined potential net installed capacity of 8,382 MW (gross 9,255 MW).

  There is no certainty that any Prospective Project will be realized.

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

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

| *(in MW)* | 68 Operating Facilities | 5 Development Projects | Numerous Prospective Projects |
|---|---|---|---|
| HYDRO | | | |
| Net | 797 | 54 | 2,082 |
| Gross | 1,181 | 135 | 2,470 |
| WIND | | | |
| Net | 773 | 353 | 5,975 |
| Gross | 1,629 | 353 | 6,385 |
| GEOTHERMAL | | | |
| Net | 94 | — | 85 |
| Gross | 174 | — | 160 |
| SOLAR | | | |
| Net | 62 | 315 | 240 |
| Gross | 88 | 315 | 240 |
| **TOTAL** | | | |
| **Net** | **1,726** | **722** | **8,382** |
| **Gross** | **3,072** | **803** | **9,255** |

# 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 sustainable dividend.

## Maintain Diversification of Energy Sources

The Corporation strives to maintain a diversified portfolio of assets in terms of geography and sources of energy to alleviate any seasonal and production variations. The amount of electricity generated by the Operating Facilities is generally dependent on the availability of water flows, wind regimes, geothermal resources and solar irradiation. Lower-than-expected water flows, wind regimes, geothermal resources 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 37 hydroelectric facilities, which draw on 31 watersheds, 25 wind farms, 2 geothermal plants and 4 solar farms, providing significant diversification in terms of operating revenue sources. Furthermore, the nature of hydroelectric, wind, geothermal and solar power generation partially offsets any seasonal variations, as illustrated in the following table:

| | **Consolidated long-term average production[1]** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *In GWh and %* | Q1 | | Q2 | | Q3 | | Q4 | | Total |
| HYDRO | 370 | 12% | 1,065 | 35% | 1,002 | 33% | 581 | 19% | 3,018 |
| WIND | 595 | 30% | 436 | 22% | 388 | 20% | 560 | 28% | 1,979 |
| GEOTHERMAL | 320 | 25% | 320 | 25% | 320 | 25% | 320 | 25% | 1,280 |
| SOLAR | 7 | 19% | 12 | 33% | 13 | 33% | 6 | 15% | 38 |
| Total | 1,292 | 20% | 1,833 | 29% | 1,723 | 27% | 1,467 | 23% | 6,315 |

1. The consolidated long-term average production is the annualized LTA for the facilities in operation at August 13, 2018. 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 and Associates" section.

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

# KEY PERFORMANCE INDICATORS

## The Corporation measures its performance using key performance indicators.

- Power generation comparison with a long-term average in megawatt-hours (“MWh”) and gigawatt-hours (“GWh”);
- Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA Proportionate;
- Adjusted Net Earnings (Loss);
- Free Cash Flow; and
- Payout Ratio.

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. The indicators also facilitate the comparison of results over different periods.

These indicators are not recognized measures under IFRS, have no standardized meaning prescribed by IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section for more information.

# SECOND QUARTER UPDATE

## Permission to appeal on water rights denied

On April 3, 2018, Harrison Hydro Project Inc., Fire Creek Project Limited Partnership, Lamont Creek Project Limited Partnership, Stokke Creek Project Limited Partnership, Tipella Creek Project Limited Partnership and Upper Stave Project Limited Partnership filed for leave to appeal to the Supreme Court of Canada the decision of the Environmental Review Board regarding the water rental rates to be charged under the Water Act. On August 2, 2018, the leave to appeal was denied. This outcome could affect the expenses of these entities on an annual basis going forward; the expected aggregate annual increase for water rights rentals could be approximately $1.6 million. The Corporation is looking into ways to reorganize internally the ownership of the projects to minimize or even eliminate this increase. The amount for such an increase in water rights rentals has already been recorded in the 2013, 2014, 2015, 2016, 2017 and 2018 results of the Corporation, which owns a 50.0024% indirect interest in the facilities.

In addition, on March 23, 2017, the Comptroller of the Water Rights issued adjusted rental statements to the Appellants for years 2011 and 2012 for an amount of $3.3 million in aggregate. The amount claimed was paid under protest and the Appellants have filed a Notice of Appeal of that decision to the Environmental Appeal Board, which was stayed until the appeal mentioned in the preceding paragraph is resolved. This appeal will now go forward on different grounds not related to the previous appeal.

## Electricity purchase agreements renewed with BC Hydro

On April 16, 2018, Innergex announced the renewal of the electricity purchase agreement for the Brown Lake hydro facility. The renewed agreement is for a 40-year term and is effective as of April 1, 2018. The agreement is subject to approval by the British Columbia Utilities Commission.

On April 16, 2018, Innergex and Sekw'el'was Cayoose Creek Band announced the renewal of the electricity purchase agreement for the Walden North hydro facility. The renewed agreement is for a 40-year term and is effective as of April 1, 2018. The agreement is subject to approval by the British Columbia Utilities Commission.

## First Court rules in favor of HS Orka

In February 2016, HS Orka issued a legal letter to HS Veitur hf demanding full payment of the long-term receivable in relation to the shared pension liability. This was following receipt of a termination notice by HS Veitur of an agreement regarding payments of the pension liability, sent on December 31, 2015. The two companies had reached an agreement in 2011 on HS Veitur’s share and, based on that agreement, HS Orka considers its claim to be fully valid. Negotiations have not settled the matter. Court proceedings took place in March 2018 and on April 17, 2018, the First Court of Iceland ruled in favor of HS Orka. HS Veitur filed an appeal to the Court of Appeal, which is a court of second instance. The Corporation anticipates a result by April 2019. A claim for $9.9 million was filed and is included in accounts receivable on the balance sheet.

## Extension of foreign exchange forward contracts

On April 23, 2018, the Corporation extended all its foreign exchange forward contracts that hedge its exposure to foreign exchange rate on its investment in France. The contracts have been extended for a period of two years following their original expiry dates, which range from April 2018 to August 2019.

| Contracts | Maturity | Early termination option | Notional Amounts June 30, 2018 |
|---|---|---|---|
| **Contracts used to hedge the foreign exchange risk** | | | |
| Foreign exchange forwards amortizing until 2041, allowing conversion at a fixed rate of CAD 1.7332/Euro (before 1.7575/Euro) | 2020 (before 2018) | none | 159,344 |
| Foreign exchange forwards amortizing until 2042, allowing conversion at a fixed rate of CAD 1.7340/Euro (before 1.7588/Euro) | 2020 (before 2018) | none | 49,957 |
| Foreign exchange forwards amortizing until 2041, allowing conversion at a fixed rate of CAD 1.6850/Euro (before 1.7150/Euro) | 2021 (before 2019) | none | 111,945 |
| Foreign exchange forwards amortizing until 2043, allowing conversion at a fixed rate of CAD 1.7654/Euro (before 1.7890/Euro) | 2021 (before 2019) | none | 167,963 |
| Foreign exchange forwards amortizing until 2043, allowing conversion at a fixed rate of CAD 1.7804/Euro (before 1.8011/Euro) | 2021 (before 2019) | none | 80,941 |

## Power purchase agreement signed for a wind project in Texas, USA

On May 7, 2018, Innergex announced that it has signed a 12-year power purchase agreement for 300 MW of wind energy from its 352.8 MW Foard City development project. Sales under the power purchase agreement will start upon the facility reaching commercial operation. Located in Texas, USA, the project has also executed an interconnection agreement with Electric Transmission Texas, LLC. On-site activities intended to qualify the Foard City wind project for U.S. renewable tax incentives ("PTCs") were performed since 2016. Full notice to proceed with construction is expected to be issued in the fourth quarter of 2018, to achieve commercial operation in the third quarter of 2019.

## Acquisition of remaining interests in three hydro facilities

On May 15, 2018, Innergex announced that it has acquired the 33.3% interest of Ledcor Power Ltd in Creek Power Inc., a company that indirectly owns the Fitzsimmons Creek (7.5 MW), Boulder Creek (25.3 MW) and Upper Lillooet River (81.4 MW) hydro facilities located in British Columbia as well as a portfolio of prospective projects. Innergex already owned the remaining 67.7% interest in Creek Power Inc. Innergex also owned all the preferred equity and received virtually all of the cash flows generated by the three facilities.

## Partnership and acquisition in Chile

On May 15, 2018, Innergex and Energía Llaima, a Chile-based renewable energy company, announced that they had been selected in a bid process to acquire in partnership the Duqueco hydro project (140 MW), which includes two hydro facilities in Chile. The acquisition was subject to a final partnership agreement between the parties being reached. In addition, Innergex has signed an exclusivity agreement with Energía Llaima for a joint venture partnership to acquire a 50% stake in the company. The joint venture partnership and acquisition were completed on July 3, 2018, and July 5, 2018, respectively.

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

The Duqueco hydro project includes two hydro facilities commissioned in 2001, Peuchen (85 MW) and Mampil (55 MW). Innergex is expecting an Adjusted EBITDA of approximately US$21 million ($26.8 million) annually for the Duqueco project. The purchase price, net of an estimated US$10 million ($12.8 million) in cash, is approximately US$210 million ($268 million), subject to certain adjustments. A US$130 million ($166.0 million) 15-year term financing has been arranged and underwritten by Itau, a leading South American bank. The 15-year term is comprised of a bullet loan of US$70 million ($85.9 million) and carries a variable interest rate, to which the Corporation intends to reduce its exposure by entering into long-term hedging instruments. The proceeds of the loan will be used to pay a portion of the purchase price. Energia Llaima's net share of the remaining purchase price amounted to about US$80 million ($102.2 million). In addition, Energia Llaima made a deposit to secure financing of US$10 million ($12.8 million).

Energía Llaima owns interest in two facilities in operation, a hydro facility (12 MW) and a solar thermal facility (34 MW), which should generate projected Adjusted EBITDA of approximately US$6.5 million ($8.3 million) annually, two hydro facilities in development (125 MW) and other early development stage projects. Innergex now owns 50% of Energía Llaima. Innergex invested an initial amount of US$10 million ($12.8 million) through available funds under its corporate revolving credit facilities and has agreed to invest an additional US$100 million ($140.5 million) over a 12-month period, a commitment it has nearly fulfilled with its acquisition of the Duqueco hydro project.

## Upper Lillooet River and Boulder Creek Loan

The Upper Lillooet River and Boulder Creek construction loan was converted into a term loan on June 29, 2018.

The loan comprises three facilities or tranches:

- The $191.6 million construction loan was converted into a 25-year term loan amortized over a 22-year period. The term loan will be repayable in semi-annual installments starting in 2021 and maturing in 2043. The term loan carries a fixed interest rate of 4.22%.
- The $250 million construction loan was converted into a 38-year term loan amortized over a 13-year period. The term loan will be repayable in semi-annual installments starting in 2043 and maturing in 2056. The term loan carries a fixed interest rate of 4.46%.
- The $50 million construction loan was converted into a 38-year term loan. The term loan carries a fixed interest rate of 4.46%. The principal will be repayable at maturity in 2056.

This debt is secured by the assets of Boulder Creek L.P. and Upper Lillooet River Power L.P.

## Construction Activities

The total project costs for the Development Projects are as follows:

| | Ownership % | Gross installed capacity (MW) | Expected COD | Gross estimated LTA[1] (GWh) | PPA term (years) | Total project costs | Expected first full year | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Estimated[1] ($M) | Revenues[1] ($M) | Adjusted EBITDA[1][3] ($M) |
| **HYDRO (Iceland)** | | | | | | | | |
| Brúarvirkjun | 53.9 | 10.0 | 2020 | 80.0 | - [4] | 53.8 [2] | 4.2 [2] | 3.2 [2] |
| **SOLAR (United States)** | | | | | | | | |
| Phoebe | 100.0 [5] | 315.0 | 2019 | 738.0 | 12 [5] | 524.0 [2] | 34.6 [2] | 26.7 [2] |

1. 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 this MD&A.
2. Corresponding to 100% of this facility.
3. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.
4. Power generated to be sold on the retail market.
5. Ownership interest is 100% of the sponsor equity in Phoebe. However, following tax equity funding, a tax equity partner will hold 100% of the tax equity interests.

**Brúarvirkjun**
The Brúarvirkjun hydro project was acquired in the first quarter of 2018 as part of the acquisition of Alterra Power Corp. ("Alterra") in February 2018. Site preparation work was already under way at the time of the acquisition.

As at the date of this MD&A, construction work continues on site with installation of the site offices and camp accommodations. All the major contracts have been signed and the major civil contractor has commenced work on site. The project has received its Environmental Impact Assessment ("EIA") and obtained all necessary water rights, land contracts, exploration permits, development licence and municipal approvals through a specific local land-use plan. The project continues to face an appeal before the Appellate Committee for Environment and Resources to claim a voiding of the construction permit. A formal response was filed against the issues and grounds raised. Commissioning is expected to occur in the first half of 2020.

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

**Phoebe**

The 315 $MW_{DC}$ Phoebe solar photovoltaic project was acquired in the third quarter of 2018. Concurrent with the closing of the acquisition on July 2, 2018, financial close for the project's debt and tax equity financing were achieved and full notice to proceed with construction was issued to the contractor which is designing and constructing the plant, including the supply of First Solar Series 6 thin film modules and other equipment, and perform operation and maintenance of the plant for a period of five years. Commercial operation is expected to be reached in the third quarter of 2019.

The Phoebe project will sell 100% of its output to the ERCOT power grid and receive a fixed price on 89% of its energy produced under a 12-year PPA.

## Development Activities

**Foard City**

The 352.8 MW Foard City wind project was acquired in the first quarter of 2018, as part of the acquisition of Alterra. Full notice to proceed with construction is expected to be issued in the fourth quarter of 2018 to achieve commercial operation in the third quarter of 2019. The project has a 12-year power purchase agreement for 300 MW for which sales will start upon the facility reaching commercial operation. The Corporation expects projected Adjusted EBITDA to be over $10 million annually for the project which will also benefit from PTCs.

As of the date of this MD&A, the Foard City project has executed all of the material project contracts, including a turbine supply agreement for 140 GE 2.52 MW wind turbines, a 20-year operation and maintenance agreement, a balance of plant agreement and an interconnection agreement. In addition, site control and other major development milestones, such as environmental impact assessments and local property tax abatements, are complete. Project financing discussions are under way.

**Frontera**

The 109 MW Frontera hydro project was acquired in the third quarter of 2018, as part of the Energia Llaima joint venture partnership. Full notice to proceed with construction is expected to be issued in 2019 to achieve commercial operation in 2022.

As at the date of this MD&A, the project is almost shovel-ready. The project obtained most of the rights and permits to proceed with construction, including technical and environmental approvals. The most important remaining step is the financing process, which is under way.

**El Canelo**

The 16 MW El Canelo hydro project was acquired in the third quarter of 2018, as part of the Energia Llaima joint venture partnership. Full notice to proceed with construction is expected to be issued in 2019, to achieve commercial operation in 2021.

As at the date of this MD&A, the project continues its permitting process, including obtaining environmental and technical approvals. The project initial design was reviewed to address various constraints, which delayed the permitting process.

# OPERATING RESULTS

The Corporation's operating results for the three- and six-month periods ended June 30, 2018, are compared with the operating results for the same period in 2017.

Electricity production in the quarter was 100% of the LTA production despite below-average wind regimes in France.

Production increased 38%, revenues increased 37% and Adjusted EBITDA increased 15%. These increases are attributable mainly to the contribution of the facilities acquired in 2017 and 2018, to higher production at the Mesgi'g Ugju's'n, Upper Lillooet River and Boulder Creek facilities and at the wind facilities in Quebec.

## 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, geothermal facilities and solar farm. These LTA are determined to allow long-term forecasting of the expected power generation for each of the Corporation's facilities.

| | Three months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Production (MWh)[1] | LTA (MWh) | Production as a % of LTA | Production (MWh)[1] | LTA (MWh) | Production as a % of LTA |
| HYDRO | | | | | | |
| Quebec | 215,118 | 214,050 | 100% | 222,102 | 214,050 | 104% |
| Ontario | 18,597 | 20,805 | 89% | 22,340 | 20,805 | 107% |
| British Columbia | 822,493 | 813,139 | 101% | 748,622 | 804,953 | 93% |
| United States | 18,564 | 16,956 | 109% | 9,709 | 16,956 | 57% |
| Subtotal | 1,074,772 | 1,064,950 | 101% | 1,002,773 | 1,056,764 | 95% |
| WIND | | | | | | |
| Quebec | 292,919 | 273,523 | 107% | 234,748 | 278,561 | 84% |
| France | 120,154 | 157,125 | 76% | 72,904 | 89,487 | 81% |
| Subtotal | 413,073 | 430,648 | 96% | 307,652 | 368,048 | 84% |
| GEOTHERMAL | | | | | | |
| Iceland | 321,580 | 319,740 | 101% | — | — | — |
| SOLAR | | | | | | |
| Ontario | 13,896 | 12,202 | 114% | 12,356 | 12,288 | 101% |
| Total | 1,823,321 | 1,827,540 | 100% | 1,322,781 | 1,437,100 | 92% |

1. The Dokie, Flat Top, Jimmie Creek, Kokomo, Shannon, Spartan, Toba Montrose, Umbata Falls and Viger-Denonville facilities are treated as joint ventures and associates and accounted for using the equity method; their revenues are not included in the Corporation's consolidated revenues and, for consistency's sake, their electricity production figures have been excluded from the production table. For more information on the Corporation's joint ventures and associates, please refer to the "Investments in Joint Ventures and Associates" section.

During the three-month period ended June 30, 2018, the Corporation's facilities produced 1,823,321 MWh of electricity or 100% of the LTA of 1,827,540 MWh. Overall, the hydroelectric facilities produced 101% of their LTA. This result can be explained by average water flows across most regions. Overall, the wind farms produced 96% of their LTA due mainly to below-average wind regimes and outages caused by maintenance activities in France, partly offset by above-average wind regimes in Quebec. The geothermal facilities produced 101% of their LTA. The Stardale solar farm produced 114% of its LTA due to an above-average solar regime. For more information on operating segment results, please refer to the "Segment Information" section.

The 38% production increase over the same period last year is due mainly to the contribution of the facilities acquired from Alterra in 2018 and in France in 2017, to higher production at the Mesgi'g Ugju's'n, Upper Lillooet River and Boulder Creek facilities and to better performance at the Quebec wind facilities.

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

| | Six months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Production (MWh)[1] | LTA (MWh) | Production as a % of LTA | Production (MWh)[1] | LTA (MWh) | Production as a % of LTA |
| HYDRO | | | | | | |
| Quebec | 341,420 | 338,220 | 101% | 355,588 | 338,220 | 105% |
| Ontario | 43,127 | 45,099 | 96% | 45,864 | 45,099 | 102% |
| British Columbia | 1,001,925 | 1,026,430 | 98% | 917,352 | 1,006,417 | 91% |
| United States | 28,770 | 24,883 | 116% | 16,437 | 24,883 | 66% |
| Subtotal | 1,415,242 | 1,434,632 | 99% | 1,335,241 | 1,414,619 | 94% |
| WIND | | | | | | |
| Quebec | 645,234 | 656,468 | 98% | 538,796 | 645,575 | 83% |
| France | 361,529 | 384,830 | 94% | 150,857 | 178,071 | 85% |
| Subtotal | 1,006,763 | 1,041,298 | 97% | 689,653 | 823,646 | 84% |
| GEOTHERMAL | | | | | | |
| Iceland[2] | 517,217 | 514,868 | 100% | — | — | — |
| SOLAR | | | | | | |
| Ontario | 20,444 | 19,332 | 106% | 20,159 | 19,469 | 104% |
| Total | 2,959,666 | 3,010,130 | 98% | 2,045,053 | 2,257,734 | 91% |

1. The Dokie, Flat Top, Jimmie Creek, Kokomo, Shannon, Spartan, Toba Montrose, Umbata Falls and Viger-Denonville facilities are treated as joint ventures and associates and accounted for using the equity method; their revenues are not included in the Corporation's consolidated revenues and, for consistency's sake, their electricity production figures have been excluded from the production table. For more information on the Corporation's joint ventures and associates, please refer to the "Investments in Joint Ventures and Associates" section.
2. Production and LTA for the period from February 6, 2018, to June 30, 2018.

During the six-month period ended June 30, 2018, the Corporation's facilities produced 2,959,666 MWh of electricity or 98% of the LTA of 3,010,130 MWh. Overall, the hydroelectric facilities produced 99% of their LTA due mainly to outages caused by maintenance activities and winter hazards in British Columbia and to below-average production at the Upper Lillooet River hydro facility due to challenging post-commissioning activities that are currently being addressed; these were offset by average or above-average water flows in most regions. Overall, the wind farms produced 97% of their LTA due mainly to outages caused by maintenance activities in France and challenging post-commissioning activities that are currently being addressed at the Mesgi'g Ugju's'n facility. The geothermal facilities produced 100% of their LTA. The Stardale solar farm produced 106% of its LTA due to an above-average solar regime. For more information on operating segment results, please refer to the "Segment Information" section.

The 45% production increase compared with the same period last year is due mainly to the contribution of the facilities acquired with Alterra in February 2018 and in France in 2017 and of the Upper Lillooet River and Boulder Creek hydro facilities commissioned in 2017 and to better performance at the Quebec wind and United States hydro facilities.

The overall performance of the Corporation's facilities for the periods ended June 30, 2018, demonstrates the benefits of geographic diversification and the complementarity of hydroelectric, wind, geothermal and solar power generation.

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

## Financial Results

| | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 Restated [3] | Change | | 2018 | 2017 Restated [3] | Change | |
| Revenues | 149,541 | 109,530 | 40,011 | 37 % | 267,422 | 184,056 | 83,366 | 45 % |
| Operating expenses | 37,450 | 17,215 | 20,235 | 118 % | 63,422 | 33,304 | 30,118 | 90 % |
| General and administrative expenses | 8,899 | 4,757 | 4,142 | 87 % | 16,557 | 9,335 | 7,222 | 77 % |
| Prospective project expenses | 4,065 | 1,638 | 2,427 | 148 % | 8,973 | 4,556 | 4,417 | 97 % |
| Adjusted EBITDA[1] | 99,127 | 85,920 | 13,207 | 15 % | 178,470 | 136,861 | 41,609 | 30 % |
| Adjusted EBITDA margin[1] | 66.3% | 78.4% | | | 66.7% | 74.4% | | |
| Finance costs | 49,438 | 39,287 | 10,151 | 26 % | 95,109 | 68,805 | 26,304 | 38 % |
| Other net expenses (revenues) | 1,427 | (413) | 1,840 | (446)% | 3,615 | (772) | 4,387 | (568)% |
| Depreciation and amortization | 41,766 | 31,964 | 9,802 | 31 % | 80,938 | 61,546 | 19,392 | 32 % |
| Share of loss (earnings) of joint ventures (note 2) | 1,258 | (1,821) | 3,079 | (169)% | (1,838) | (2,537) | 699 | (28)% |
| Unrealized net (gain) loss on financial instruments | (12,816) | 470 | (13,286) | (2,827)% | (673) | (4,605) | 3,932 | (85)% |
| Income tax expense (recovery of) | 1,268 | 2,496 | (1,228) | (49)% | (879) | 2,983 | (3,862) | (129)% |
| Net earnings | 16,786 | 13,937 | 2,849 | 20 % | 2,198 | 11,441 | (9,243) | (81)% |
| Net earnings attributable to: | | | | | | | | |
| Owners of the parent | 13,331 | 14,404 | (1,073) | (7)% | 6,714 | 16,698 | (9,984) | (60)% |
| Non-controlling interests | 3,455 | (467) | 3,922 | (840)% | (4,516) | (5,257) | 741 | (14)% |
| | 16,786 | 13,937 | 2,849 | 20 % | 2,198 | 11,441 | (9,243) | (81)% |
| Basic net earnings per share ($) | 0.09 | 0.12 | | | 0.03 | 0.13 | | |

1. Adjusted EBITDA and Adjusted EBITDA Margin are not recognized measures under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.
2. The Dokie, Flat Top, Jimmie Creek, Kokomo, Shannon, Spartan, Toba Montrose, Umbata Falls, Viger-Denonville facilities and the Blue Lagoon spa are treated as joint ventures and associates 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 and associates, please refer to the "Investments in Joint Ventures and Associates" section.
3. For more information on the restatement, please refer to the "Accounting Changes" section.

**Revenues**

Up 37% to $149.5 million for the three-month period ended June 30, 2018
Up 45% to $267.4 million for the six-month period ended June 30, 2018

These increases are attributable mainly to the contribution of the facilities acquired from Alterra in February 2018 and in France in 2017 and to higher production at the Mesgi'g Ugju's'n, Upper Lillooet River and Boulder Creek facilities. The increase for the six-month period is also due to revenue compensation received from a manufacturer for low-availability of equipment at a wind farm.

**Expenses**

Up 114% to $50.4 million for the three-month period ended June 30, 2018
Up 88% to $89.0 million for the six-month period ended June 30, 2018

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

*Operating expenses* consist primarily of the operators' salaries, insurance premiums, expenditures related to operation and maintenance, property taxes, royalties and cost of power (if applicable). For the three- and six-month periods ended June 30, 2018, the Corporation recorded operating expenses of $37.5 million and $63.4 million respectively ($17.2 million and $33.3 million for the corresponding periods in 2017). The 118% and 90% increases for the three- and six-month periods are attributable mainly to the acquisition of Alterra in February 2018, the commissioning of the Upper Lillooet River hydro facility in March 2017 and to the acquisition of wind facilities in France in 2017. The operating expenses for the geothermal facilities operated by HS Orka in Iceland are higher, as maintenance and daily operations require more work. To supplement its power production, HS Orka purchases power when needed, contributing to higher operating expenses. These two factors related to HS Orka mostly explain the higher increase in the operating expenses compared with the increase in revenues. In 2017, operating expenses for the six-month period were impacted by a $3.3 million aggregate payment related to water rights for 2011 and 2012 for Fire Creek, Lamont Creek, Stokke Creek, Tipella Creek and Upper Stave River, which were reassessed following the decision by the British Columbia Ministry of Forests, Lands and Natural Resource Operations to apply higher rental rates based on the facilities' combined production rather than apply lower rates for each facility based on its individual production, as had previously been the ministry's practice. The Corporation has filed an appeal of this decision with the Environmental Appeal Board. Since 2013, these facilities' water rights fees have been paid at the higher rates. A 49.99% portion of the water rights payment was allocated to the non-controlling interests.

*General and administrative expenses* consist primarily of salaries, professional fees and office expenses. For the three- and six-month periods ended June 30, 2018, general and administrative expenses totalled $8.9 million and $16.6 million respectively ($4.8 million and $9.3 million for the corresponding periods in 2017). The 87% and 77% increases for the three- and six-month periods stem mainly from the acquisition of Alterra, which included the HS Orka geothermal operations, and from the greater number of facilities in operation.

*Prospective project expenses* include the costs incurred for the development of Prospective Projects. They are related to the number of Prospective Projects that the Corporation chooses to advance and the resources required to do so. For the three- and six-month periods ended June 30, 2018, prospective project expenses totalled $4.1 million and $9.0 million respectively ($1.6 million and $4.6 million for the corresponding periods in 2017). The 148% and 97% increases for the periods are mainly attributable to activities undertaken to submit projects in response to requests for proposals, pursuing opportunities in new international markets, including Chile, to future requests for proposals and expressions of interest in Canadian provinces and to the advancement of a number of prospective projects.

### Adjusted EBITDA

Up 15% to $99.1 million for the three-month period ended June 30, 2018
Up 30% to $178.5 million for the six-month period ended June 30, 2018

*Adjusted EBITDA,* which is defined as revenues less operating expenses, general and administrative expenses and prospective project expenses, is a key performance indicator when evaluating the Corporation's financial results. Adjusted EBITDA is not a recognized measure under IFRS, has no standardized meaning prescribed by IFRS and therefore may not be comparable with those presented by other issuers. Please refer to the "Non-IFRS Measures" section for more information.

These increases are due mainly to higher production and revenues from the facilities commissioned and acquired in 2017 and 2018, partly offset by higher operating expenses, general and administrative expenses and prospective project expenses. The Adjusted EBITDA Margin decreased from 78.4% to 66.3% for the three-month period and from 74.4% to 66.7% for the six-month period due mainly to a larger increase in expenses as opposed to the increase in revenues resulting from the integration of the HS Orka geothermal operations, which generate a lower margin due to its higher maintenance, daily operations and power purchasing costs, and to challenging post-commissioning activities at the Upper Lillooet River facility.

### Adjusted EBITDA Proportionate

Up 28% to $113.3 million for the three-month period ended June 30, 2018
Up 38% to $196.0 million for the six-month period ended June 30, 2018

*Adjusted EBITDA Proportionate,* which is defined as Adjusted EBITDA plus Innergex's share of Adjusted EBITDA of the joint ventures and associates, is a key performance indicator when evaluating the Corporation's financial results. Adjusted EBITDA Proportionate is not a recognized measure under IFRS, has no standardized meaning prescribed by IFRS and therefore may not be comparable with those presented by other issuers. Please refer to the "Non-IFRS Measures" section for more information.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Adjusted EBITDA[1] | 99,127 | 85,920 | 178,470 | 136,861 |
| Innergex's share of Adjusted EBITDA of joint ventures and associates[1 2] | 14,125 | 2,897 | 17,547 | 5,147 |
| Adjusted EBITDA Proportionate[1] | 113,252 | 88,817 | 196,017 | 142,008 |

1. Adjusted EBITDA, Innergex's share of Adjusted EBITDA of joint ventures and associates and Adjusted EBITDA Proportionate are not recognized measures under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.
2. Please refer to the "Investments in Joint Ventures and Associates" section of this MD&A for more information.

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

These increases in Adjusted EBITDA Proportionate for the three- and six-month periods are due mainly to higher Adjusted EBITDA and a higher Innergex's share of Adjusted EBITDA of joint ventures and associates stemming from the addition of the facilities acquired from Alterra in 2018.

**Finance Costs**

Up 26% to $49.4 million for the three-month period ended June 30, 2018
Up 38% to $95.1 million for the six-month period ended June 30, 2018

*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. The increases are due mainly to expenses related to the facilities acquired in 2017 and 2018, the Upper Lillooet River and Boulder Creek facilities commissioned at the end of the first quarter and in the second quarter of 2017 and higher inflation compensation interest on real-return bonds.

The effective all-in interest rate on the Corporation's debt and convertible debentures was 4.50% as at June 30, 2018 (4.43% as at December 31, 2017).

**Other Net Expenses (Revenues)**

Expenses of $1.4 million for the three-month period ended June 30, 2018
Expenses of $3.6 million for the six-month period ended June 30, 2018

*Other Net Expenses (Revenues)* include transaction costs, realized gain or loss on foreign exchange, gain or loss on contingent considerations, other net revenues, loss on disposal of property, plant and equipment and amortization of below market contracts. Expenses recorded for the three-month period are due mainly to a realized loss on foreign exchange and for the six-month period mainly to higher transaction costs stemming from the Alterra acquisition.

In connection with the Alterra transaction, the Corporation entered into bond forward contracts for a total of $50.0 million to mitigate the risk of interest rate increases before the closing of the transaction. These bond forward contracts settled upon closing of the Alterra transaction in February 2018 and resulted in a gain.

**Depreciation and Amortization**

Up 31% to $41.8 million for the three-month period ended June 30, 2018
Up 32% to $61.5 million for the six-month period ended June 30, 2018

These increases are attributable mainly to the acquisition of Alterra in 2018 and the acquisition of French wind farms in 2017, partly offset by an increase of the depreciation period for the Quebec wind facilities. The increase for the six-month period was also due to the commissioning of Upper Lillooet River and Boulder Creek facilities in 2017

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

Share of net loss of $1.3 million for the three-month period ended June 30, 2018, compared with share of net earnings of $1.8 million for the corresponding period in 2017
Share of net earnings of $1.8 million for the six-month period ended June 30, 2018, compared with share of net earnings of $2.5 million for the corresponding period in 2017

The acquisition of Alterra included interests in the following entities: HS Orka hf ("HS Orka") (53.9% interest), which holds a 30% interest in Blue Lagoon hf., Dokie General Partnership ("Dokie") (25.5% interest), Flat Top Group Holdings LLC ("Flat Top") (51% sponsor equity), Jimmie Creek Limited Partnership ("Jimmie Creek") (50.99% interest), Muko Partnership Holdings, LLC ("Kokomo") (90% sponsor equity), Shannon Group Holdings, LLC ("Shannon") (50% sponsor equity), Spartan Holdings, LLC ("Spartan") (100% sponsor equity) and Toba Montrose General Partnership ("Toba Montrose") (40% interest) (collectively "Alterra Power Group Entities").

To these joint ventures and associates are added the following entities already owned by Innergex: Umbata Falls, L.P. (49% interest) and Viger-Denonville, L.P. (50% interest).

Please refer to the "Investments in Joint Ventures and associates" section for more information.

**Unrealized Net (Gain) Loss on Financial Instruments**

Unrealized net gain of $12.8 million for the three-month period ended June 30, 2018, compared with an unrealized net loss of $0.5 million for the corresponding period in 2017

Unrealized net gain of $0.7 million for the six-month period ended June 30, 2018, compared with an unrealized net gain of $4.6 million for the corresponding period in 2017

*Derivatives* are used by the Corporation to manage its exposure to the risk of rising interest rates on its existing and upcoming debt financing and to reduce the Corporation's foreign exchange risk, thereby protecting the economic value of its projects.

The unrealized net gain on financial instruments for the three-month period ended June 30, 2018, is due mainly to a favourable variation of the CAD-EUR foreign exchange rate swap, to the amortization of the accumulated losses from the pre-hedge accounting period and to a $4.7 million gain due to higher future aluminum prices affecting the value of the embedded derivatives related to two PPAs at HS Orka, partly offset by an unrealized loss on the conversion of intragroup loans.

The unrealized net gain on financial instruments for the six-month period ended June 30, 2018, is due mainly to an unrealized gain on the conversion of intragroup loans and the amortization of the accumulated losses from the pre-hedge accounting period, partly offset by an unfavourable variation of the CAD-EUR foreign exchange rate swap, and to a $5.1 million loss due to lower future aluminum prices affecting the value of the embedded derivatives related to two PPAs at HS Orka.

For the three- and six-month periods ended June 30, 2017, the Corporation recognized a $0.5 million unrealized net loss on financial instruments and a $4.6 million unrealized net gain on financial instruments respectively. The unrealized net loss for the three-month period ended June 30, 2017, is attributable to an unrealized net loss on the foreign exchange rate swap due to an unfavourable change in the CAD-EUR foreign exchange rate, which was mostly offset by a gain on the conversion of an intragroup loan and the amortization of the accumulated losses from the period prior to when hedge accounting was used. The unrealized net gain for the six-month period ended June 30, 2017, is due to an unrealized gain on the conversion of an intragroup loan and the amortization of the accumulated losses from the pre-hedge accounting period, partly offset by an unrealized net loss on the foreign exchange rate swap due to an unfavourable change in the CAD-EUR foreign exchange rate.

**Income Tax Expense (Recovery of)**

Income tax expense at $1.3 million for the three-month period ended June 30, 2018

Recovery of tax expense at $0.9 million for the six-month period ended June 30, 2018

For the three-month period ended June 30, 2018, the Corporation recorded a current income tax expense of nil ($0.9 million for the corresponding period in 2017) and a deferred income tax expense of $1.3 million (deferred income tax expense of $1.6 million for the corresponding period in 2017). The $0.9 million positive variation in the current income tax expense is due mainly to lower charges in the United States and in France. The decrease in the deferred income tax expense is due mainly to the variation of unrealized (gain) loss on financial instruments.

For the six-month period ended June 30, 2018, the Corporation recorded a current income tax expense of $2.5 million ($1.7 million for the corresponding period in 2017) and a deferred income tax recovery of $3.4 million (deferred income tax expense of $1.2 million for the corresponding period in 2017). The $0.8 million increase in the current income tax expense is due mainly to higher income from wind facilities in France. The positive variation of deferred income tax is due mainly to the unrealized loss on derivative financial instruments.

**Net Earnings**

Up to $16.8 million for the three-month period ended June 30, 2018

Down to $2.2 million for the six-month period ended June 30, 2018

For the three-month period ended June 30, 2018, the Corporation recorded net earnings of $16.8 million (basic and diluted net earnings of $0.09 per share), compared with net earnings of $13.9 million (basic and diluted net earnings of $0.12 per share) for the corresponding period in 2017. The $2.8 million increase in net earnings can be explained by the $13.3 million positive change in unrealized net gain (loss) on financial instruments, the $13.2 million increase in Adjusted EBITDA and the $1.2 million positive change in income taxes, partly offset by the $10.2 million increase in finance costs, the $9.8 million increase in depreciation and amortization, the $3.1 million negative change in the share of loss (earnings) of joint ventures and associates and the $1.8 million negative change in other net expenses (revenues).

For the six-month period ended June 30, 2018, the Corporation recorded net earnings of $2.2 million (basic and diluted net earnings of $0.03 per share), compared with net earnings of $11.4 million (basic and diluted net earnings of $0.13 per share) for the corresponding period in 2017. The $9.2 million decrease in net earnings can be explained by the $26.3 million increase in finance costs, the $19.4 million increase in depreciation and amortization, the $4.4 million negative change in other net expenses (revenues), the $3.9 million negative change in unrealized net (gain) loss on financial instruments and the $0.7 million negative change in the share of loss (earnings) of joint ventures and associates, partly offset by the $41.6 million increase in Adjusted EBITDA and the $3.9 million positive change in income taxes.

**Adjusted Net Earnings (Loss)**
Down to $1.5 million for the three-month period ended June 30, 2018
Loss of $5.7 million for the six-month period ended June 30, 2018

When evaluating its operating results and to provide a more accurate picture of its operating results, a key performance indicator for the Corporation is Adjusted Net Earnings (Loss). Adjusted Net Earnings (Loss) is not a recognized measure under IFRS, has no standardized meaning prescribed by IFRS and therefore may not be comparable with those presented by other issuers. Please refer to the "Non-IFRS Measures" section for more information.

| Impact on net earnings of financial instruments | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | | Restated [2] | | Restated [2] |
| Net earnings | 16,786 | 13,937 | 2,198 | 11,441 |
| *Add (Subtract):* | | | | |
| Unrealized net (gain) loss on financial instruments | (12,816) | 470 | (673) | (4,605) |
| Realized loss (gain) on financial instruments | 2 | — | (826) | — |
| Income tax expense (recovery) related to above items | 698 | (498) | 1,373 | 634 |
| Share of unrealized net gain on financial instruments of joint ventures and associates, net of related income tax | (3,191) | (372) | (7,814) | (406) |
| Adjusted Net Earnings (Loss) [1] | 1,479 | 13,537 | (5,742) | 7,064 |

1. Adjusted Net Earnings (Loss) is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.
2. For more information on the restatement, please refer to the "Accounting Changes" section.

Excluding loss (gains) on financial instruments and the related income taxes, net earnings for the three-month period ended June 30, 2018, would have been $1.5 million, compared with a net earnings of $13.5 million in 2017 and net loss for the six-month period ended June 30, 2018, would have been $5.7 million, compared with a net earnings of $7.1 million in 2017. The decrease in the adjusted net earnings is due mainly to higher finance costs and amortization and depreciation as well as a negative variation in the share of loss (earnings) of joint ventures and associates, partly offset by an higher Adjusted EBITDA.

**Non-controlling Interests**
Attribution of earnings of $3.5 million for the three-month period ended June 30, 2018, compared with an attribution of losses of $0.5 million for the corresponding period in 2017
Attribution of losses of $4.5 million for the six-month period ended June 30, 2018, compared with an attribution of losses of $5.3 million for the corresponding period in 2017

Non-controlling interests are related to the HS Orka hf ("HS Orka"), Harrison Hydro Limited Partnership ("HHLP"), the Creek Power Inc. subsidiaries ("Creek Power") (for a 45-day period in the second quarter of 2018, compared with a full three-month period in 2017 and for a 136-day period in 2018, compared to a full six-month period in 2017), the Mesgi'g Ugju's'n (MU) Wind Farm, L.P. ("MU"), the Innergex Europe (2015) Limited Partnership ("Innergex Europe"), the Kwoiek Creek Resources Limited Partnership ("Kwoiek"), the Magpie Limited Partnership, the Innergex Sainte-Marguerite S.E.C. entity and the Cayoose Creek Power Limited Partnership ("Cayoose Creek") and their respective general partners.

The earnings attributed to non-controlling interests for the three-month period, compared with losses the previous year, are result mainly from revenues allocated to HS Orka due to the unrealized gain on the change in the fair value of embedded derivatives and from a positive variation at Innergex Europe and at MU due to the revenues recorded in the period, partly offset by a negative variation at HHLP due to lower revenues.

The losses attributed to non-controlling interests for the six-month period are similar to the previous year. The losses allocated to Creek Power due to challenging post-commissioning activities that are currently being addressed at Upper Lillooet River were partly offset by higher earnings at MU, lower losses at Innergex Europe and earnings at HS Orka.

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

# LIQUIDITY AND CAPITAL RESOURCES

For the six-month period ended June 30, 2018, the Corporation generated cash flows from operating activities of $117.8 million, compared with cash flows of $70.6 million for the same period last year. During this six-month period, the Corporation generated funds from financing activities of $189.9 million and used $137.6 million in funds for investing activities, mainly to pay for the acquisition of Alterra. As at June 30, 2018, the Corporation had cash and cash equivalents totalling $232.6 million, compared with $61.9 million as at December 31, 2017.

## Cash Flows from Operating Activities

### Up $47.2 million to $117.8 million for the six-month period ended June 30, 2018

The increase is primarily attributable to a $41.6 million increase in Adjusted EBITDA, a $10.3 million increase in distributions from joint ventures and a $19.0 million increase in non-cash operating working capital items, partly offset by a $16.6 million increase in the interest paid on long-term debt.

## Cash Flows from Financing Activities

### Up $77.6 million to $189.9 million for the six-month period ended June 30, 2018

The increase is attributable to a $102.4 million net increase in long-term debt in 2018, compared with a $137.1 million increase in long-term debt in 2017 and to the $143.6 million increase in net proceeds from the issuance of convertible debentures, which was partly offset by a $10.9 million decrease in investments from non-controlling interests, a $9.5 million payment for buyback of common shares, a $6.7 million increase in distributions to non-controlling interests and a $4.5 million increase in the payment of dividends on common shares.

The $102.4 million increase in long-term debt is attributable mainly to a $150 million subordinated unsecured five-year term loan contracted in February to finance the cash portion of the acquisition of Alterra. The increase is also due to a drawing of $131.6 million (US$100 million) on the revolving credit facilities on June 28, 2018, to transit to our Chilean subsidiary to have funds available to close the partnership with Energia Llaima, which occurred on July 3, 2018, and acquire the Duqueco hydro project on July 5, 2018. The increase was partly offset by the issuance of convertible debentures and scheduled debt repayments and the reimbursement of loans dedicated to the consumer taxes recoverable from the government for the Theil-Rabier, Plan Fleury and Les Renardières wind facilities.

| **Use of Financing Proceeds** | Six months ended June 30 | | |
|---|---|---|---|
| | 2018 | 2017 | Change |
| Proceeds from issuance of long-term debt (including revolving credit facility) | 542,118 | 300,866 | |
| Repayment of long-term debt (including revolving credit facility) | (437,021) | (163,203) | |
| Payment of deferred financing costs | (2,687) | (613) | |
| Subtotal: net increase in long-term debt | 102,410 | 137,050 | (34,640) |
| Net proceeds from issuance of convertible debentures | 143,590 | — | |
| Payment of buy-back of common shares | (9,487) | — | |
| Investments from non-controlling interests | — | 10,913 | |
| Generation of financing proceeds | 236,513 | 147,963 | 88,550 |
| Business acquisitions | (120,258) | (112,834) | |
| Decrease of restricted cash and short-term investments | 14,538 | 17,639 | |
| Net funds (invested into) withdrawn from the reserve accounts | (2,204) | 55 | |
| Additions to property, plant and equipment | (30,260) | (65,524) | |
| Additions to project development costs | (1,559) | — | |
| Buyback of minority interests | (1,700) | — | |
| Additions to intangible assets | (3,625) | — | |
| Reductions of other long-term assets | 173 | 71 | |
| Net use of financing proceeds | (144,895) | (160,593) | 15,698 |
| Increase (reduction) in working capital | 91,618 | (12,630) | 104,248 |

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

During the six-month period ended June 30, 2018, the Corporation borrowed a net amount of $102.4 million and issued convertible debentures for a net amount of $143.6 million, partly offset by a $9.5 million payment for the buyback of common shares. The net amount borrowed and the net proceeds from the issuance of convertible debentures were used for the acquisition of Alterra and will be used for the partnership with Energia Llaima and the Duqueco acquisition in Chile. The Corporation used $14.5 million in restricted cash and short-term investments mainly to pay for the remaining construction costs of the Upper Lillooet River, Boulder Creek and Mesgi'g Ugju's'n facilities.

## Cash Flows from Investing Activities

### Outflow down $17.9 million to $137.6 million for the six-month period ended June 30, 2018

During the period, the main investing activities impacting cash flows were as follows: business acquisitions accounted for a $120.3 million outflow ($112.8 million outflow in 2017) for the Alterra acquisition; additions to property, plant and equipment accounted for a $30.3 million outflow ($65.5 million outflow in 2017); and fluctuations in restricted cash and short-term investments accounted for a $14.5 million outflow ($17.6 million outflow in 2017).

## Cash and Cash Equivalents

### Up $170.7 million to $232.6 million for the six-month period ended June 30, 2018

For the six-month period ended June 30, 2018, cash and cash equivalents increased by $170.7 million (increased by $26.6 million for the corresponding period in 2017) as a result of $131.6 million (US$100 million) in transit to our Chilean subsidiary to have funds available to close the partnership with Energia Llaima, which occurred on July 3, and to acquire the Duqueco hydro project on July 5 and of its operating, financing and investing activities.

# SHARE CAPITAL STRUCTURE

## Information on Capital Stock

**Number of Common Shares Outstanding**

| Weighted average number of common shares outstanding (000s) | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Weighted average number of common shares | 132,523 | 108,431 | 127,586 | 108,386 |
| Effect of dilutive elements on common shares[1] | 728 | 995 | 722 | 976 |
| Diluted weighted average number of common shares | 133,251 | 109,426 | 128,308 | 109,362 |

1. During the three- and six-month periods ended June 30, 2018, 2,579,684 of the 2,782,599 stock options (3,331,684 of the 3,457,432 for the three- and six-month periods ended June 30, 2017) were dilutive. During the three- and six-month periods ended June 30, 2018, none of the 14,166,667 shares that can be issued on conversion of convertible debentures were dilutive (none of the 6,666,667 shares were dilutive for the same period in 2017).

**The Corporation's Equity Securities**

| | | As at | |
|---|---|---|---|
| | August 13, 2018 | June 30, 2018 | June 30, 2017 |
| Number of common shares | 132,799,509 | 132,566,525 | 108,443,695 |
| Number of 4.75% convertible debentures | 150,000 | 150,000 | — |
| Number of 4.25% convertible debentures | 100,000 | 100,000 | 100,000 |
| 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 | 2,782,599 | 2,782,599 | 3,457,432 |

As at the opening of the market on August 13, 2018, and since June 30, 2018, the increase in the number of common shares of the Corporation is attributable mainly to the issuance of 232,984 shares related to the Corporation's Dividend Reinvestment Plan ("DRIP").

As at June 30, 2018, the increase in the number of common shares since June 30, 2017, was attributable mainly to the issuance of 24,327,225 shares on February 6, 2018, in connection with the Alterra acquisition, of 427,521 shares related to the DRIP and of 121,378 following the exercise of stock options, net of 753,294 shares purchased for cancellation under the normal course issuer bid ("NCIB").

## Dividends

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 test imposed under corporate law for the declaration of dividends and other relevant factors.

The following dividends were declared by the Corporation:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Dividends declared on common shares[1] | 22,536 | 17,893 | 45,031 | 35,775 |
| Dividends declared on common shares ($/share) | 0.170 | 0.165 | 0.340 | 0.330 |
| Dividends declared on Series A Preferred Shares | 767 | 767 | 1,533 | 1,533 |
| Dividends declared on Series A Preferred Shares ($/share) | 0.2255 | 0.2255 | 0.4510 | 0.4510 |
| Dividends declared on Series C Preferred Shares | 719 | 719 | 1,438 | 1,438 |
| Dividends declared on Series C Preferred Shares ($/share) | 0.359375 | 0.359375 | 0.718750 | 0.718750 |

1. The increase in dividends declared on common shares is mainly attributable to the issuance of 24,327,225 shares on February 6, 2018, related to the Alterra acquisition, the increase in the quarterly dividend and the issuance of shares under the DRIP, partly offset by shares repurchased under NCIB.

The following dividends will be paid by the Corporation on October 15, 2018:

| Date of announcement | Record date | Payment date | Dividend per common share ($) | Dividend per Series A Preferred Share ($) | Dividend per Series C Preferred Share ($) |
|---|---|---|---|---|---|
| 08/13/2018 | 9/28/2018 | 10/15/2018 | 0.170 | 0.2255 | 0.359375 |

On February 21, 2018, the Board of Directors increased the quarterly dividend from $0.165 to $0.170 per common share, corresponding to an annual dividend of $0.68 per common share.  This is the fifth consecutive $0.02 annual dividend increase.

## Normal Course Issuer Bid

In August 2017, the Corporation proceeded with a normal course issuer bid on its Common Shares (the "Bid") covering the period between August 17, 2017, and August 16, 2018. The Corporation may purchase for cancellation up to 2,000,000 of its Common Shares, representing approximately 1.84% of the 108,640,790 issued and outstanding Common Shares as at August 14, 2017.

Under the Bid, the Corporation has entered into an automatic purchase plan agreement with a designated broker to allow for purchases of Common Shares at times when it would ordinarily not be permitted to do so due to self-imposed blackout periods or regulatory restrictions.

Under the Bid, the Corporation did not purchase any Common Shares for cancellation during the three-month period ended June 30, 2018, and purchased 697,212 Common Shares at an average price of $13.60 per share, for an aggregate consideration of $9.5 million during the six-month period ended June 30, 2018.

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

# FINANCIAL POSITION

As at June 30, 2018, the Corporation had $5,577 million in total assets, $4,532 million in total liabilities, including $3,589 million in long-term debt, and $1,045 million in shareholders' equity. The Corporation also had a working capital ratio of 1.54:1.00 (0.90:1.00 as at December 31, 2017). In addition to cash and cash equivalents amounting to $232.6 million, the Corporation had restricted cash and short-term investments of $48.0 million and reserve accounts of $52.3 million. The explanations below highlight the most significant changes in the statement of financial position items during the six-month period ended June 30, 2018.

## Assets

**Highlights of significant changes in total assets since the beginning of the year**

- A $458.5 million increase in property, plant and equipment, due mainly to the acquisition of Alterra in 2018 and to the foreign exchange rate effect on the property, plant and equipment in France, partly offset by the depreciation for the period.
- A $443.9 million increase in investments in joint ventures and associates, due mainly to the acquisition of Alterra in 2018, which included eight joint ventures and associates' projects.
- A $186.4 million increase in intangible assets, due mainly to the acquisition of Alterra in 2018 and to the foreign exchange rate effect on intangibles in France, partly offset by the amortization.
- A $170.7 million increase in cash and cash equivalents, due mainly to drawings made on the revolving credit facilities on June 28, 2018, to transit $131.6 million (US$100 million) to our Chilean subsidiary to have funds available to close the partnership with Energia Llaima on July 3 and acquire the Duqueco hydro project on July 5 and to the acquisition of Alterra in 2018.

**Working Capital Items**

Working capital was positive at $130.3 million, as at June 30, 2018, with a working capital ratio of 1.54:1.00 (as at December 31, 2017, working capital was negative at $25.2 million, with a working capital ratio of 0.90:1.00). The increase in the working capital ratio is due to higher cash and cash equivalents, to lower current portion of long-term debt and lower liability portion of derivatives on financial instruments, partly offset by lower restricted cash and short-term investments, higher accounts payable and lower accounts receivable.

The Corporation considers its current level of working capital to be sufficient to meet its needs. As at June 30, 2018, the Corporation had $700.0 million in revolving term credit facilities and had drawn $253.6 million and US$113.9 million as cash advances, while $193.3 million had been used for issuing letters of credit, leaving $103.9 million available.

*Cash and cash equivalents* amounted to $232.6 million as at June 30, 2018, compared with $61.9 million as at December 31, 2017. The increase stems mainly from drawings made on the revolving credit facilities on June 28, 2018, to transit $131.6 million (US$100 million) to our Chilean subsidiary to have funds available to close the partnership with Energia Llaima on July 3 and acquire the Duqueco hydro project on July 5.

*Restricted cash and short-term investments* amounted to $48.0 million as at June 30, 2018, compared with $58.7 million as at December 31, 2017. The decrease stems mainly from the amounts used to pay for remaining construction costs of the Upper Lillooet River, Boulder Creek and Mesgi'g Ugju's'n facilities, partly offset by the restricted cash accumulated to pay for the remaining construction costs for Rougemont 1-2, Vaite, Plan Fleury and Les Renardières and from restricted cash related to a grant that HS Orka is participating in and administering, which was received and is to be distributed to the grant partners.

*Accounts receivable* decreased from $87.5 million to $79.4 million between December 31, 2017, and June 30, 2018, due mainly to the reimbursement of commodity taxes for the Plan Fleury, Les Renardières and Theil-Rabier facilities and compensation received from a manufacturer for low-availability of equipment at a wind farm, partly offset by the accounts receivable acquired from Alterra.

*Accounts payable and other payables* increased from $91.0 million to $104.4 million from December 31, 2017, to June 30, 2018, due mainly to accounts payable acquired with Alterra, partly offset by payment of construction costs related to the Upper Lillooet River, Boulder Creek, Rougemont 1-2 and Vaite facilities.

*Liability portion of derivative financial instruments* decreased from $22.7 million to $16.2 million from December 31, 2017, to June 30, 2018, due mainly to a favourable variation in the current portion of the CAD-EUR foreign exchange swaps, to a positive variation on interest rate swaps attributable to amortization and to a positive variation on HS Orka's short-term embedded derivative liability portion, partly offset by the Alterra acquisition.

*Current portion of long-term debt* amounted to $93.1 million as at June 30, 2018, compared with $109.9 million as at December 31, 2017. The decrease stems mainly from the reimbursement of loans dedicated to the consumer taxes recoverable from the government for the Theil-Rabier, Plan Fleury and Les Renardières wind facilities, partly offset by the addition of Alterra.

**Reserve Accounts**
*Reserve accounts* consist of a hydrology/wind reserve, which was 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 regimes and to other unpredictable events, and a major maintenance reserve, which was established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity. The Corporation had $52.3 million in long-term reserve accounts as at June 30, 2018, compared with $50.0 million as at December 31, 2017. The minor increase is mainly due to mandatory investments made during the period.

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

The Corporation also has reserve accounts for dismantling the French wind farms at the end of their service life. The Corporation had $0.3 million in long-term dismantling reserve accounts as at June 30, 2018.

**Property, Plant and Equipment**
*Property, plant and equipmen*t are comprised mainly of hydroelectric facilities, wind farms, geothermal power plants and a solar farm that are either in operation or under construction. As at June 30, 2018, the Corporation had $3,647 million in property, plant and equipment, compared with $3,188 million as at December 31, 2017. The increase stems mainly from the acquisition of Alterra in 2018 and to the foreign exchange rate effect on the property, plant and equipment in France, partly offset by the depreciation for the period.

**Intangible Assets**
*Intangible assets* consist of various power purchase agreements, permits and licenses. The Corporation had $840.5 million in intangible assets as at June 30, 2018, compared with $654.1 million as at December 31, 2017. The increase is due mainly to the acquisition of Alterra in 2018, partly offset by the amortization.

**Project Development Costs**
*Project Development Costs* refers to the costs incurred to acquire prospective projects and develop hydroelectric, wind, geothermal and solar facilities. The Corporation had $41.7 million in project development costs as at June 30, 2018, compared with nil as at December 31, 2017. The increase is due to the acquisition of Alterra in 2018.

**Investments in Joint Ventures and Associates**
*Investments in Joint Ventures and Associates* is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit and loss and other comprehensive income of the joint ventures and associates. The Corporation had $455.0 million in investments in joint ventures and associates as at June 30, 2018, compared with $11.0 million as at December 31, 2017. The increase is due mainly to the acquisition of Alterra in 2018, which included eight joint ventures and associates' projects.

**Goodwill**
*Goodwill* is the excess of the purchase price over the aggregate fair value of net assets acquired. The Corporation had $99.1 million in goodwill as at June 30, 2018, compared with $38.6 million as at December 31, 2017. The increase is due to the acquisition of Alterra.

## 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 exchange rate fluctuations on the future repatriation of cash flows from its French operations. The Corporation does not own or issue any Derivatives for speculation purposes. Derivatives also include embedded derivatives such as the ones included in two PPAs at HS Orka related to aluminum prices.

Interest rate swap contracts allow the Corporation to eliminate the risk of interest rate increases on actual floating-rate debts. These totalled $925.1 million as at June 30, 2018.

Foreign exchange forward contracts allow the Corporation to hedge its exposure to foreign exchange rate on its investments in France. These totalled $570.2 million as at June 30, 2018.

Overall, Derivatives had a net negative value of $98.2 million as at June 30, 2018 (net negative value of $62.3 million as at December 31, 2017). The change in Derivatives is primarily due to the Derivatives acquired through the Alterra acquisition. Further increases in the Derivative liability are a result of an unfavourable variation in the CAD-EUR foreign exchange swaps and a decrease in future aluminum prices which results in an unfavourable variation in the embedded derivatives related to two PPAs at HS Orka. The unfavourable variations are partially offset by a positive variation on the interest rate swaps.

**Long-Term Debt**

As at June 30, 2018, long-term debt totalled $3,589 million ($3,157 million as at December 31, 2017). The $431.7 million increase results mainly from the $150 million subordinated unsecured 5-year term loan obtained in February to finance the cash portion of the Alterra acquisition, from $132 million drawn on the revolving credit facilities to be used for the partnership with Energia Llaima and the Duqueco acquisition in Chile and from the addition of long-term debt from Alterra, partly offset by scheduled repayments of project-level debts.

On February 6, 2018, Innergex increased its revolving credit facilities by $225 million to $700 million and added a new lender to the syndicate of lenders. This increase enables the Corporation to pursue the development and construction of its portfolio. The maturity of the revolving credit facilities remains December 2022.

As at June 30, 2018, 93% of the Corporation's outstanding debt, including convertible debentures, was fixed or hedged against interest rate movements (94% as at December 31, 2017).

Since the beginning of the 2018 fiscal year, the Corporation and its subsidiaries have met all material financial and non-financial conditions related to their credit agreements, trust indentures, PPAs and power hedges. Were they not met, certain financial and non-financial covenants included in the credit agreements, trust indentures, PPAs or power hedges 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.

**Other Liabilities**

*Other liabilities*, including amounts shown in current liabilities, consist of contingent considerations, asset retirement obligations, pension fund obligation, below market contracts, various liabilities related to future ownership rights owned by First Nations and interest payable on the Innergex Sainte-Marguerite, S.E.C. debenture. As at June 30, 2018, other liabilities totalled $131.0 million ($80.0 million in 2017). The increase is mostly attributable to the addition of Alterra which included a $28.1 million pension fund obligation related to HS Orka and $19.0 million related to below market contracts as well as $2.2 million related to the interest payable on the Innergex Sainte-Marguerite, S.E.C. debenture.

Following the acquisition of HS Orka, existing long-term power sales contracts in place at HS Orka at the time of acquisition were recognized at fair value by comparing the contracted prices with the prevailing market prices. The contracted prices were lower than the prevailing market prices. As a result, these pre-existing contracts were considered to be below market and a liability was recognized at fair value as part of the purchase price allocation for HS Orka. The Corporation amortizes the fair value of below market sales contracts over the remaining contract term and records the amount in other net expense.

**Convertible debentures**

During the second quarter, the Corporation completed a bought deal offering of convertible unsecured subordinated debentures of Innergex. The Corporation issued an aggregate principal amount of $150 million of debentures at a price of $1,000 per debenture, bearing interest at a rate of 4.75% per annum, payable semi-annually on June 30 and December 31 each year, commencing on December 31, 2018. The debentures will be convertible at the holder’s option into Innergex common shares at a conversion price of $20.00 per share, corresponding to a conversion rate of 50 common shares per $1,000 principal amount of debentures. The debentures will mature on June 30, 2025. They will not be redeemable before June 30, 2021. On and after June 30, 2021, and before June 30, 2023, Innergex may redeem the debentures at par plus accrued and unpaid interest, in certain circumstances. On or after June 30, 2023, Innergex may redeem the Debentures at par plus accrued and unpaid interest. The net proceeds of the convertible debenture offering were used to reduce drawings under the Corporation’s revolving term credit facility, which then was available to be drawn, as required, to fund future acquisitions, development projects and for general corporate purposes.

As at June 30, 2018, the liability portion of convertible debentures stood at $237.2 million and the equity portion stood at $4.0 million ($96.2 million and $1.9 million as at December 31, 2017).

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

**Shareholders' Equity**
As at June 30, 2018, the Corporation's shareholders' equity totalled $1,045.3 million, including $334.2 million of non-controlling interests, compared with $456.1 million as at December 31, 2017, which included $14.9 million of non-controlling interests. This $589.1 million increase in total shareholders' equity is attributable mainly to $330.6 million of shares issued for the Alterra acquisition and to the $319.3 million increase in non-controlling interest, of which $296.5 million was related to the Alterra acquisition and to the recognition of other items of comprehensive income totaling $17.6 million, partly offset by $48.0 million in dividends declared on common and preferred shares, a $9.5 million payment for the buyback of Common Shares and the recognition of a $2.2 million net earnings.

A special resolution to approve the reduction of the legal stated capital account maintained in respect of the common shares of the Corporation, without any payment or distribution to the shareholders was adopted on May 15, 2018. This 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.

**Contingencies**
In February 2016, HS Orka issued a legal letter to HS Veitur hf demanding full payment of a long-term receivable related to the shared pension liability. A $9.9 million claim was filed and is included under accounts receivable on the balance sheet. This was following receipt of a termination notice by HS Veitur of an agreement regarding payments of the pension liability, sent on December 31, 2015. The two companies had reached an agreement on HS Veitur's share in 2011 and, based on this agreement, HS Orka considers its claim to be fully valid. Negotiations have not settled the matter. The court proceedings took place in March 2018. On April 17, 2018, the First Court of Iceland ruled in favor of HS Orka. HS Veitur filed an appeal to the Court of Appeal, which is a court of second instance.

**Off-Balance-Sheet Arrangements**
As at June 30, 2018, the Corporation had issued letters of credit totaling $271.6 million to meet its obligations under its various PPAs and other agreements. Of this amount, $194.7 million was issued under its revolving term credit facilities. These letters were issued as payment securities for the Phoebe solar project and the acquisition of the Chilean company. They could also have been issued on a temporary basis during the construction of the Upper Lillooet River and Boulder Creek facilities, which ended recently, or for projects in operation. Finally, the letters could have been issued under projects' non-recourse credit facilities. As at that date, Innergex had also issued a total of $53.6 million in corporate guarantees used mainly to guarantee the long-term currency hedging instruments of its operations in France. The corporate guarantees were also used to support the performance of the Brown Lake and Miller Creek hydroelectric facilities, the post-commissioning activities at the Mesgi'g Ugju's'n facility, the Foard City development project and the Boswell Spring prospective project.

Tax equity investors in U.S. projects generally require sponsor guaranties as a condition to their investment. To support the tax equity investments at Shannon, Kokomo, Spartan, Flat Top and Phoebe, Alterra, a subsidiary of Innergex, has executed guarantees effective on funding of the tax equity investments indemnifying the tax equity investors against certain breaches of project level representations, warranties and covenants and other events.The Corporation believes these indemnifications cover matters that are substantially under its control and are very unlikely to occur. With respect to the Phoebe project, Alterra has also provided a guarantee to the lenders related to debt service payments, which will become effective only in the unlikely event that the Phoebe tax equity investors call upon their corresponding guarantee.

# FREE CASH FLOW AND PAYOUT RATIO

| **Free Cash Flow and Payout Ratio calculation**[1] | Trailing twelve months ended June 30 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities | 239,622 | 88,464 |
| *Add (Subtract) the following items:* | | |
| Changes in non-cash operating working capital items | (42,810) | 46,837 |
| Maintenance capital expenditures net of proceeds from disposals | (7,569) | (2,514) |
| Scheduled debt principal payments | (82,700) | (45,399) |
| Free Cash Flow attributed to non-controlling interests[2] | (19,217) | (8,496) |
| Dividends declared on Preferred shares | (5,942) | (5,942) |
| *Adjust for the following elements:* | | |
| Transaction costs related to realized acquisitions | 10,963 | 2,938 |
| Realized gain on derivative financial instruments | (828) | — |
| Free Cash Flow | 91,519 | 75,888 |
| | | |
| Dividends declared on common shares | 80,877 | 70,383 |
| Payout Ratio | 88% | 93% |
| | | |
| Dividends declared on common shares and paid in cash[3] | 72,877 | 64,661 |
| Payout Ratio - after the impact of the DRIP | 80% | 85% |

1. Free Cash Flow and Payout ratio are not recognized measures under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of the MD&A for more information.
2. The portion of Free Cash Flow attributed to non-controlling interests is subtracted, regardless of whether 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.
3. These are 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.

## 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. 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.

For the trailing twelve-month period ended June 30, 2018, the Corporation generated Free Cash Flow of $91.5 million, compared with $75.9 million for the corresponding period last year. The increase in Free Cash Flow is due mainly to higher cash flows from operating activities before changes in non-cash operating working capital items, higher adjustments due to higher transaction costs related to realized acquisitions and partly offset by greater scheduled debt principal payments, higher Free Cash Flow attributed to non-controlling interests and higher maintenance capital expenditures net of proceeds from disposals.

## Payout Ratio

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

For the trailing twelve-month ended June 30, 2018, the dividends on common shares declared by the Corporation amounted to 88% of Free Cash Flow, compared with 93% for the corresponding period last year. This positive change results mainly from the recent commissioning of the Mesgi'g Ugju's'n, Upper Lillooet River and Boulder Creek facilities which generated higher

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

Free Cash Flow, partly offset by higher dividend payments as a result of the issuance of 24,327,225 shares on February 6, 2018, related to the Alterra acquisition, to the increase in the quarterly dividend and to additional shares following the exercise of stock options and issued under the DRIP.

The Payout Ratio reflects the Corporation's decision to invest yearly in advancing the development of its Prospective Projects, which investments must be expensed as incurred. The Corporation considers such investments essential to its long-term growth and success, as it believes that the greenfield development of renewable energy projects offers the greatest potential internal rates of return and represents the most efficient use of management's expertise and value-added skills. For the trailing twelve-month period ended June 30, 2018, the Corporation incurred prospective project expenses of $16.5 million, compared with $10.4 million for the corresponding period last year. This 59% increase for the period is attributable mainly to activities undertaken to submit projects in request for proposals processes, pursuing opportunities in new international markets, including the United States, France and Chile, to future requests for proposals and expressions of interest in Canadian provinces and to the advancement of a number of prospective projects. Excluding these discretionary expenses, the Corporation's Payout Ratio would have been approximately 13% points lower for the trailing twelve-month period ended June 30, 2018, and approximately 11% points lower for the prior period.

Furthermore, given the anticipated cash flows from operations, the project-level financing secured for the project and the additional equity provided by the DRIP, the Corporation does not expect to require additional equity in order to complete its Brúarvirkjun and Phoebe projects currently under construction. For the acquisition of interest in the five Cartier wind farms and operating entities, the Corporation intends to divest a minority interest in the wind farms and other selected assets or portions of existing assets to repay a one-year term credit facility of $240 million contracted to pay for part of the transaction.

# SEGMENT INFORMATION

## Geographic Segments

As at June 30, 2018, and excluding its investments in joint ventures and associates, the Corporation had interests in 29 hydroelectric facilities, six wind farms and one solar farm in Canada, 15 wind farms in France, one hydroelectric facility in the United States and two geothermal facilities in Iceland. The Corporation operates in four principal geographical areas, which are detailed below.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Revenues** | | | | |
| Canada | 106,544 | 99,865 | 174,975 | 164,354 |
| France | 15,860 | 8,845 | 48,079 | 18,325 |
| Iceland | 25,578 | — | 41,995 | — |
| United States | 1,559 | 820 | 2,373 | 1,377 |
| | 149,541 | 109,530 | 267,422 | 184,056 |

| | As at | |
|---|---|---|
| | June 30, 2018 | December 31, 2017 |
| **Non-current assets, excluding derivatives financial instruments and deferred tax assets** | | |
| Canada | 3,092,679 | 2,977,859 |
| France | 966,484 | 973,740 |
| Iceland | 847,827 | — |
| United States | 250,722 | 7,052 |
| | 5,157,712 | 3,958,651 |

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

**Canada**
Revenues up 7% to $106.5 million for the three-month period ended June 30, 2018
Revenues up 6% to $175.0 million for the six-month period ended June 30, 2018

The increases in Canadian revenues for the three- and six-month periods are attributable mainly to higher production at the Mesgi'g Ugju's'n, Upper Lillooet River and Boulder Creek facilities. The increase for the six-month period also benefited from a compensation received from a manufacturer for low-availability of equipment at a wind farm.

For the period ended June 30, 2018, the increase in non-current assets, excluding derivative financial instruments and deferred income tax assets in Canada, stems mainly from the acquisition of Alterra, partly offset by depreciation of property, plant and equipment and amortization of intangible assets.

**France**
Revenues up 79% to $15.9 million for the three-month period ended June 30, 2018
Revenues up 162% to $48.1 million for the six-month period ended June 30, 2018

The increases in revenues in France for the three- and six-month periods are attributable mainly to higher production at wind facilities. The increase for the six-month period is also due to the acquisitions made in February, May and August 2017.

For the period ended June 30, 2018, the change in non-current assets, excluding derivative financial instruments and deferred income tax assets in France, stems from the foreign exchange rate effect, partly offset by depreciation of property, plant and equipment and amortization of intangible assets.

**Iceland**
Revenues at $25.6 million for the three-month period ended June 30, 2018
Revenues at $42.0 million million for the six-month period ended June 30, 2018

The increases in revenues and in non-current assets, excluding financial instruments and deferred income tax assets, stem from the two geothermal facilities acquired in February 2018 as part of the Alterra acquisition.

**United States**
Revenues up 90% to $1.6 million for the three-month period ended June 30, 2018
Revenues up 72% to $2.4 million for the six-month period ended June 30, 2018

The increases in revenues for the three- and six-month periods can mainly be explained by higher production at the Horseshoe Bend facility.

For the period ended June 30, 2018, the increase in non-current assets is attributable mainly to the acquisition of Alterra, which owns interest in several US-based joint ventures and associates that are not consolidated.

## Operating Segments

As at June 30, 2018, the Corporation had five operating segments: hydroelectric generation, wind power generation, geothermal power generation, solar power generation and site development.

Through its hydroelectric, wind power, geothermal power and solar power generation segments, the Corporation sells electricity produced by its hydroelectric, wind, geothermal and solar facilities mainly to publicly owned utilities or other creditworthy counterparties. Through its site development segment, Innergex analyzes potential sites and develops hydroelectric, wind, geothermal 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, 2017. 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, geothermal and 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 | | | | | |
|---|---|---|---|---|---|---|
| | Hydroelectric | Wind | Geothermal | Solar | Site Development | Total |
| **Three months ended June 30, 2018** | | | | | | |
| Power generated (MWh) | 1,074,772 | 413,073 | 321,580 | 13,896 | — | 1,823,321 |
| Revenues | 76,014 | 42,113 | 25,578 | 5,836 | — | 149,541 |
| Expenses: | | | | | | |
| Operating | 14,103 | 7,503 | 15,704 | 140 | — | 37,450 |
| General and administrative | 3,299 | 2,677 | 2,883 | 40 | — | 8,899 |
| Prospective project | — | — | — | — | 4,065 | 4,065 |
| Adjusted EBITDA[1] | 58,612 | 31,933 | 6,991 | 5,656 | (4,065) | 99,127 |
| **Three months ended June 30, 2017** | | | | | | |
| Power generated (MWh) | 1,002,773 | 304,101 | — | 12,356 | 3,551 | 1,322,781 |
| Revenues | 74,177 | 29,777 | — | 5,190 | 386 | 109,530 |
| Expenses: | | | | | | |
| Operating | 10,742 | 6,117 | — | 170 | 186 | 17,215 |
| General and administrative | 2,744 | 1,939 | — | 33 | 41 | 4,757 |
| Prospective project | — | — | — | — | 1,638 | 1,638 |
| Adjusted EBITDA[1] | 60,691 | 21,721 | — | 4,987 | (1,479) | 85,920 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

| | SUMMARY OPERATING RESULTS | | | | | |
|---|---|---|---|---|---|---|
| | Hydroelectric | Wind | Geothermal | Solar | Site Development | Total |
| **Six months ended June 30, 2018** | | | | | | |
| Power generated (MWh) | 1,415,242 | 1,006,763 | 517,217 | 20,444 | | 2,959,666 |
| Revenues | 110,677 | 106,163 | 41,995 | 8,587 | — | 267,422 |
| Expenses: | | | | | | |
| Operating | 23,958 | 14,932 | 24,223 | 309 | — | 63,422 |
| General and administrative | 5,956 | 5,298 | 5,228 | 75 | — | 16,557 |
| Prospective project | — | — | — | — | 8,973 | 8,973 |
| Adjusted EBITDA[1] | 80,763 | 85,933 | 12,544 | 8,203 | (8,973) | 178,470 |
| **Six months ended June 30, 2017** | | | | | | |
| Power generated (MWh) | 1,335,241 | 686,102 | — | 20,159 | 3,551 | 2,045,053 |
| Revenues | 108,535 | 66,669 | — | 8,466 | 386 | 184,056 |
| Expenses: | | | | | | |
| Operating | 21,481 | 11,292 | — | 345 | 186 | 33,304 |
| General and administrative | 5,510 | 3,360 | — | 88 | 377 | 9,335 |
| Prospective project | — | — | — | — | 4,556 | 4,556 |
| Adjusted EBITDA[1] | 81,544 | 52,017 | — | 8,033 | (4,733) | 136,861 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

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

| | FINANCIAL POSITION | | | | | |
|---|---|---|---|---|---|---|
| | Hydroelectric | Wind | Geothermal | Solar | Site Development | Total |
| **As at June 30, 2018** | | | | | | |
| Goodwill | 15,180 | 40,873 | 42,762 | 303 | 5 | 99,123 |
| Total assets | 2,608,434 | 1,880,377 | 902,954 | 108,062 | 77,581 | 5,577,408 |
| Total liabilities | 2,255,092 | 1,618,594 | 452,996 | 113,727 | 91,728 | 4,532,137 |
| Acquisition of property, plant and equipment during the period | 1,192 | 251 | 10,137 | 132 | 5,396 | 17,108 |
| **As at December 31, 2017 (Restated [1])** | | | | | | |
| Goodwill | 8,269 | 30,311 | — | — | — | 38,580 |
| Total assets | 2,425,646 | 1,651,537 | — | 101,449 | 11,824 | 4,190,456 |
| Total liabilities | 2,093,158 | 1,515,468 | — | 99,902 | 25,803 | 3,734,331 |
| Acquisition of property, plant and equipment during the year | 18,804 | 352,968 | — | 12 | 185,884 | 557,668 |

1. For more information on the restatement, please refer to the "Accounting Changes" section.

**Hydroelectric Generation Segment**

Revenues up 2% to $76.0 million for the three-month period ended June 30, 2018
Revenues up 2% to $110.7 million for the six-month period ended June 30, 2018

For the three-month period ended June 30, 2018, this segment produced 101% of the LTA, compared with production at 95% of the LTA last year. The increase in the percentage of the LTA is attributable mainly to higher production from the British Columbia and United States facilities compared to last year.

The slight increase in revenues compared with last year is due mainly to the contribution of the Upper Lillooet River and Boulder Creek hydroelectric facilities commissioned in March and May 2017, partly offset by lower production at the Quebec facilities. Expenses for the period were higher due mainly to challenging post-commissioning activities that are currently being addressed at the Upper Lillooet River hydro facility.

For the six-month period ended June 30, 2018, this segment produced 99% of the LTA, compared with production at 94% of the LTA last year. The increase in the percentage of the LTA is attributable mainly to higher production from the British Columbia and United States facilities compared to the same period last year.

The slight increase in revenues compared with last year is due mainly to the contribution of the Upper Lillooet River and Boulder Creek hydroelectric facilities commissioned in March and May 2017 and to higher production at the Ashlu Creek and Horseshoe Bend facilities, partly offset by lower production at the St-Paulin and Tretheway facilities. Expenses for the period were higher due mainly to the commissioning of the Upper Lillooet River and Boulder Creek facilities. In 2017, a $3.3 million aggregate payment was recorded related to water rights for 2011 and 2012 for Fire Creek, Lamont Creek, Stokke Creek, Tipella Creek and Upper Stave River, which were reassessed following the decision by the British Columbia Ministry of Forests, Lands and Natural Resource Operations to apply higher rental rates based on the facilities' combined production rather than applying lower rates for each facility based on its individual production, as had previously been the ministry's practice. Since 2013, the facilities' water rights fees have been paid at the higher rates. A 49.99% portion of the water rights payment is allocated to the non-controlling interests.

The increase in total assets since December 31, 2017, stems mainly from the acquisition of Alterra in February 2018 which owns interest in several joint ventures and associates, which was partly offset by depreciation of property, plant and equipment and amortization of intangible assets.

The increase in total liabilities since December 31, 2017, is attributable mainly to the acquisition of Alterra in February 2018, partly offset by scheduled repayment of long-term debt.

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

**Wind Power Generation Segment**
Revenues up 41% to $42.1 million for the three-month period ended June 30, 2018
Revenues up 59% to $106.2 million for the six-month period ended June 30, 2018

For the three-month period ended June 30, 2018, this segment produced 96% of the LTA compared with production at 84% of the LTA last year. The increase in the percentage of LTA is due mainly to above-average wind regimes in Quebec, partly offset by below-average wind regimes and outages related to maintenance activities in France.

Revenues increased due mainly to higher production at the Mesgi'g Ugju's'n facility and to higher production at the wind facilities in France and contribution of the wind facilities acquired in 2017.

For the six-month period ended June 30, 2018, this segment produced 97% of the LTA compared with production at 84% of the LTA last year. The increase in the percentage of LTA is due mainly to better wind regimes in France and in Quebec, compared with the same period last year.

Revenues increased due mainly to the contribution of the wind facilities acquired in France in 2017, to compensation from a manufacturer for low-availability of equipment at a wind farm and to higher production from the Mesgi'g Ugju's'n and all wind facilities in France.

The increase in total assets since December 31, 2017, is mainly attributable to the acquisition of Alterra, which owned an interest in several joint ventures and associates, partly offset by depreciation of property, plant and equipment and amortization of intangible assets.

The increase in total liabilities since December 31, 2017, is attributable mainly to the acquisition of Alterra, which owned an interest in several joint ventures and associates, partly offset by the scheduled repayment of long-term debt.

**Geothermal Power Generation Segment**
Revenues at $25.6 million for the three-month period ended June 30, 2018
Revenues at $42.0 million for the six-month period ended June 30, 2018

For the three- and six-month periods ended June 30, 2018, this segment produced 101% and 100% of the LTA.

The increase in revenues stem from the two geothermal facilities acquired in February 2018 as part of the Alterra acquisition.

The increase in total assets since December 31, 2017, results mainly from the addition of the two geothermal facilities acquired in February 2018, partly offset by depreciation of property, plant and equipment and from amortization of intangible assets.

The increase in total liabilities since December 31, 2017, results mainly from the addition of the two geothermal facilities acquired in February 2018, partly offset by the scheduled repayment of long-term debt.

**Solar Power Generation Segment**
Revenues up 12% to $5.8 million for the three-month period ended June 30, 2018
Revenues up 1% to $8.6 million for the six-month period ended June 30, 2018

For the three-month period ended June 30, 2018, this segment, which includes one solar farm in Ontario, produced 114% of the LTA compared with production at 101% of the LTA last year. The increase in the percentage of LTA is due to above-average solar irradiation this quarter.

The increase in revenues can be explained by higher production compared with last year.

For the six-month period ended June 30, 2018, this segment produced 106% of the LTA compared with production at 104% of the LTA last year. The increase in revenues can be explained by higher production than last year.

The increase in total assets since December 31, 2017, results mainly from the acquisition of Alterra, which owned an interest in Spartan and Kokomo joint ventures and associates, partly offset by depreciation of property, plant and equipment and the amortization of intangible assets.

The increase in total liabilities since December 31, 2017, is mainly due to the acquisition of Alterra which owned an interest in Spartan and Kokomo joint ventures and associates, partly offset by the scheduled repayment of long-term debt.

**Site Development Segment**

Expenses up 118% to $4.1 million for the three-month period ended June 30, 2018
Expenses up 75% to $9.0 million for the six-month period ended June 30, 2018

These increases in expenses for the three- and six-month periods are mainly due to investments made to pursue growth opportunities and to the addition of Alterra's prospective projects.

The increase in total assets since December 31, 2017, stems mainly from the development projects acquired from Alterra.

Since December 31, 2017, the increase in total liabilities is mainly due to the debt raised to acquire development projects with the Alterra acquisition.

## QUARTERLY FINANCIAL INFORMATION

| *Restated* [2] | Three months ended | | | |
|---|---|---|---|---|
| *(in millions of dollars, unless otherwise stated)* | June 30, 2018 | Mar. 31, 2018 | Dec. 31, 2017 | Sept. 30, 2017 |
| Power generated (MWh) | 1,823,321 | 1,136,345 | 1,106,060 | 1,243,099 |
| Revenues | 149.5 | 117.9 | 108.0 | 108.2 |
| Adjusted EBITDA[1] | 99.1 | 79.3 | 80.1 | 81.8 |
| Realized and unrealized net gain (loss)on financial instruments | 12.8 | (11.3) | (1.4) | (1.0) |
| Net earnings (loss) | 16.8 | (14.6) | 3.4 | 4.2 |
| Net earnings (loss) attributable to owners of the parent | 13.3 | (6.6) | 7.0 | 5.7 |
| Net earnings (loss) attributable to owners of the parent ($ per share – basic and diluted) | 0.09 | (0.07) | 0.05 | 0.04 |
| Dividends declared on preferred shares | 1.5 | 1.5 | 1.5 | 1.5 |
| Dividends declared on common shares | 22.5 | 22.5 | 17.9 | 17.9 |
| Dividends declared on common shares, $ per share | 0.170 | 0.170 | 0.165 | 0.165 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.
2. For more information on the restatement, please refer to the "Accounting Changes" section. Only data from 2017 was restated.

| *Restated* [2] | Three months ended | | | |
|---|---|---|---|---|
| *(in millions of dollars, unless otherwise stated)* | June 30, 2017 | Mar. 31, 2017 | Dec 31, 2016 | Sept. 30, 2016 |
| Power generated (MWh) | 1,322,781 | 722,273 | 848,967 | 831,840 |
| Revenues | 109.5 | 74.5 | 73.3 | 69.3 |
| Adjusted EBITDA[1] | 85.9 | 50.9 | 50.3 | 51.2 |
| Realized and unrealized net (loss) gain on financial instruments | (0.5) | 5.1 | 2.2 | (1.3) |
| Net earnings (loss) | 13.9 | (2.5) | 8.8 | 0.4 |
| Net earnings attributable to owners of the parent | 14.4 | 2.3 | 9.8 | 3.4 |
| Net earnings attributable to owners of the parent ($ per share – basic and diluted) | 0.12 | 0.01 | 0.08 | 0.02 |
| Dividends declared on preferred shares | 1.5 | 1.5 | 1.5 | 1.5 |
| Dividends declared on common shares | 17.9 | 17.9 | 17.3 | 17.3 |
| Dividends declared on common shares, $ per share | 0.165 | 0.165 | 0.160 | 0.160 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.
2. For more information on the restatement, please refer to the "Accounting Changes" section. Only data from 2017 was restated.

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 48% 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. Geothermal production is fairly stable throughout the year.

Readers may expect the net earnings or losses to reflect this seasonality characteristic of hydroelectric facilities, wind farms and solar farms. However, other factors can also influence these figures, some of which have a relatively stable quarter-to-quarter impact while others are more variable. For the Corporation, the factors responsible for the largest fluctuations in net earnings (loss) are the unrealized and realized gains (losses) on financial instruments arising from the increase (decrease) in benchmark interest rates, foreign exchange fluctuations and fluctuations in future expected aluminum prices. Historical analysis of net earnings (losses) should take these factors into account. It should be noted that the unrealized changes in the market value of derivative financial instruments result from interest rate fluctuations, foreign exchange fluctuations and changes in the value of embedded derivatives linked to aluminum and do not have an impact on the Corporation's Adjusted EBITDA, finance costs, cash flows from operating activities, Free Cash Flow or Payout Ratio.

# INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

## Electricity Production

| | Three months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Production (MWh)[1] | LTA (MWh)[1] | Production as a % of LTA | Production (MWh)[1] | LTA (MWh)[1] | Production as a % of LTA |
| Toba Montrose | 247,465 | 230,117 | 108% | — | — | — |
| Shannon | 209,049 | 203,802 | 103% | — | — | — |
| Flat Top | 227,982 | 234,098 | 97% | — | — | — |
| Dokie | 71,750 | 63,365 | 113% | — | — | — |
| Jimmie Creek | 57,113 | 45,053 | 127% | — | — | — |
| Umbata Falls | 37,122 | 37,823 | 98% | 51,190 | 37,823 | 135% |
| Viger-Denonville | 17,578 | 15,450 | 114% | 14,576 | 15,450 | 94% |
| Spartan | 5,267 | 5,335 | 99% | — | — | — |
| Kokomo | 2,591 | 3,510 | 74% | — | — | — |

1. Corresponds to 100% of the facility's electricity production and LTA.

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

| | Six months ended June 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Production (MWh)[1] | LTA (MWh)[1] | Production as a % of LTA | Production (MWh)[1] | LTA (MWh)[1] | Production as a % of LTA |
| Toba Montrose [2] | 251,231 | 240,412 | 105% | — | — | — |
| Shannon [2] | 330,793 | 321,239 | 103% | — | — | — |
| Flat Top [3] | 247,619 | 256,724 | 96% | — | — | — |
| Dokie [2] | 111,444 | 107,129 | 104% | — | — | — |
| Jimmie Creek [2] | 57,726 | 45,828 | 126% | — | — | — |
| Umbata Falls | 56,799 | 54,750 | 104% | 77,118 | 54,750 | 141% |
| Viger-Denonville | 39,961 | 35,750 | 112% | 35,004 | 35,750 | 98% |
| Spartan [2] | 6,940 | 7,270 | 95% | — | — | — |
| Kokomo [2] | 3,661 | 4,915 | 74% | — | — | — |

1. Corresponds to 100% of the facility's electricity production and LTA.
2. For the period from February 6, 2018, to June 30, 2018.
3. For the period from March 23, 2018, to June 30, 2018.

## Innergex's share of Adjusted EBITDA of joint ventures and associates

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Innergex's share of Adjusted EBITDA of joint ventures and associates[1]: | | | | |
| Toba Montrose (40%) | 6,359 | — | 5,878 | — |
| Shannon (50%) [2] | 569 | — | 1,328 | — |
| Flat Top (51%)[2 3] | 925 | — | 903 | — |
| Dokie (25.5%) | 1,275 | — | 2,242 | — |
| Jimmie Creek (50.99%) | 1,828 | — | 1,656 | — |
| Umbata Falls (49%) | 1,318 | 2,021 | 2,022 | 2,997 |
| Viger-Denonville (50%) | 1,081 | 876 | 2,500 | 2,150 |
| Spartan (100%) [2] | 577 | — | 745 | — |
| Kokomo (90%) [2] | 193 | — | 273 | — |
| | 14,125 | 2,897 | 17,547 | 5,147 |

1. Innergex's share of Adjusted EBITDA of joint ventures and associates is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information
2. Ownership interest is in the sponsor equity of Shannon, Flat Top, Spartan and Kokomo, however, tax equity partners hold 100% of the tax equity interests.
3. Flat Top commenced commercial operations on March 23, 2018.

The summarized financial information below are the amounts shown in the joint ventures' and associates' financial statements prepared in accordance with IFRS.

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

## Toba Montrose

The Corporation holds a 51% voting interest and 40% participating economic interest in East Toba and Montrose Creek hydro facilities ("Toba Montrose"). In 2046, the Corporation's economic interest will increase to 51% for no additional consideration.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 19,747 | 20,316 |
| Operating, general and administrative expenses | 3,850 | 5,620 |
| Adjusted EBITDA[1] | 15,897 | 14,696 |
| Finance costs | 7,045 | 11,229 |
| Other net revenues | (124) | (187) |
| Depreciation and amortization | 4,430 | 7,047 |
| Unrealized net gain on derivative financial instruments | (158) | (561) |
| Net earnings (loss) | 4,704 | (2,832) |
| Other comprehensive income (loss) | 923 | (2,316) |
| Total comprehensive income (loss) | 5,627 | (5,148) |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

For the three-month period ended June 30, 2018, and the period from February 6, 2018, to June 30, 2018, production was 108% and 105% of the LTA due to high water flows, which contributed to a higher Adjusted EBITDA during the periods.

The loss for the period from February 6, 2018, to June 30, 2018, is primarily due to the seasonal variations of generation at Toba Montrose, with only 36% of generation occurring in the first half of the year (32% of which was generated from April to June).

For the period from February 6, 2018, to June 30, 2018, the other comprehensive loss was attributable to changes in forward interest rates related to the interest rate swap.

**Summary Statement of Financial Position**

| | As at June 30, 2018 |
|---|---|
| Current assets | 22,918 |
| Non-current assets | 674,928 |
| | 697,846 |
| | |
| Current liabilities | 14,272 |
| Non-current liabilities | 478,169 |
| Partner's equity | 205,405 |
| | 697,846 |

Toba Montrose 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 $92.7 million used to hedge the interest rate of the Toba Montrose loan had a net negative value of $31.3 million at June 30, 2018.

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

## Shannon

The Corporation holds a 50% sponsor equity interest in the Shannon wind facility, with the remaining 50% sponsor equity interest and tax equity interest held by third parties.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 3,542 | 6,555 |
| Operating, general and administrative expenses | 2,404 | 3,899 |
| Adjusted EBITDA[1] | 1,138 | 2,656 |
| Finance costs | 218 | 267 |
| Other net revenues | (816) | (784) |
| Depreciation and amortization | 2,329 | 3,952 |
| Unrealized net loss on derivative financial instruments | 3,548 | 378 |
| Net loss | (4,141) | (1,157) |
| Other comprehensive income | 19,264 | 9,006 |
| Total comprehensive income | 15,123 | 7,849 |
| | | |
| Net loss attributable to: | | |
| Sponsors: | | |
| Innergex | (1,455) | 1,885 |
| Other sponsor | (1,455) | 1,885 |
| Tax equity investors | (1,231) | (4,927) |
| | (4,141) | (1,157) |
| | | |
| Total comprehensive income (loss) attributable to: | | |
| Sponsors: | | |
| Innergex | 8,361 | 6,720 |
| Other sponsor | 8,361 | 6,720 |
| Tax equity investors | (1,599) | (5,591) |
| | 15,123 | 7,849 |
| | | |
| Distributions received from the joint venture by the Corporation | 852 | 1,545 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

For the three-month period ended June 30, 2018, and the period from February 6, 2018, to June 30, 2018, production was 103% of the LTA due mainly to above-average wind regimes.

On June 29, 2015, Shannon entered into a long-term power hedge covering the period from June 1, 2016, to May 31, 2029. The power hedge provides for Shannon to receive a fixed dollar amount per MWh for a fixed quantity of power. Shannon and the hedge provider settle net on a monthly basis. The other comprehensive loss consists solely of the effective portion of changes in the fair value of the power hedge. Shannon hedges approximately 75% of its output; the power hedge had a net positive value of $42.9 million at June 30, 2018.

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

**Summary Statement of Financial Position**

| | As at June 30, 2018 |
|---|---|
| Current assets | 6,212 |
| Non-current assets | 376,408 |
| | 382,620 |
| Current liabilities | 12,016 |
| Non-current liabilities | 11,784 |
| Sponsors equity interest | 131,443 |
| Tax equity interest | 227,377 |
| | 382,620 |

One of the primary incentives for renewable energy in the United States has been the production tax credit program ("PTC"), whereby corporations that generate electricity from renewable energy sources, including wind, are eligible for tax credits which provide a tax benefit for each unit of generation for the first 10 years of the facility's operation (until 2025 for Shannon). The Shannon tax equity investors are allocated a portion of Shannon's taxable income (losses) and PTCs and a portion of the cash generated until they achieve an agreed after–tax investment return (the "Flip Point"). After the Flip Point, the Shannon tax equity investors will be allocated 5% of cash distributions and taxable income (losses) and the sponsors will be allocated 95% of all cash distributions and taxable income (losses).

For the three-month period ended June 30, 2018, and the period from February 6, 2018, to June 30, 2018, the wind facility generated approximately $6.5 million and $10.0 million of PTCs.

The Tax Equity Investors and Sponsors' taxable income (losses) and PTCs and cash distributions allocations are detailed in the table below. These allocations will change when the Tax Equity Investors reach their expected return.

| | Tax Equity Investors | Sponsors |
|---|---|---|
| Taxable income (losses) and PTCs | 99.0% | 1.0% |
| Cash distributions | 64.1% | 35.9% |

Due to exceptionally low winds at the facility during certain parts of 2016 and 2017, there is currently a higher allocation of cash to the Tax Equity Investors, which commenced in the first quarter of 2017. The cash allocations are based on a quarterly test measuring cumulative generation for the project since tax equity funding (December 14, 2015) with allocations to the Sponsors and Tax Equity Investors based on cumulative allocations.

Tax equity investors in U.S. projects generally require sponsor guaranties as a condition to their investment. To support the tax equity investments at Shannon, Alterra, a subsidiary of Innergex, executed a guarantee indemnifying the tax equity investors against certain breaches of project level representations, warranties and covenants and other events. The Corporation believes these indemnifications cover matters which are substantially under its control, and are very unlikely to occur.

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

## Flat Top

The Corporation holds a 51% sponsor equity interest in the Flat Top wind facility, with the remaining 49% sponsor equity interest and tax equity interest held by third parties. The wind farm began commercial operation on March 23, 2018.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 [1] |
|---|---|---|
| Revenues | 5,040 | 5,399 |
| Operating, general and administrative expenses | 3,227 | 3,628 |
| Adjusted EBITDA[2] | 1,813 | 1,771 |
| Finance costs | 48 | 48 |
| Other net revenues | (3) | (6) |
| Depreciation and amortization | 3,329 | 3,536 |
| Unrealized net (gain) loss on derivative financial instruments | (53) | 4,059 |
| Net loss | (1,508) | (5,866) |
| Other comprehensive income | 22,126 | 18,607 |
| Total comprehensive income | 20,618 | 12,741 |
| | | |
| Net loss attributable to: | | |
| Sponsors: | | |
| Innergex | (3,200) | (2,153) |
| Other sponsor | (3,074) | (2,068) |
| Tax equity investors | 4,766 | (1,645) |
| | (1,508) | (5,866) |
| | | |
| Total comprehensive income attributable to: | | |
| Sponsors: | | |
| Innergex | 7,022 | 6,249 |
| Other sponsor | 6,747 | 6,004 |
| Tax equity investors | 6,849 | 488 |
| | 20,618 | 12,741 |
| | | |
| Distributions received from the joint venture by the Corporation | 558 | 558 |

1.Flat Top began commercial operation on March 23, 2018.
2. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

For the the three-month period ended June 30, 2018, and the period from March 23, 2018, to June 30, 2018, production was 97% and 96% of the LTA due mainly to post-commissioning activities.

On May 24, 2017, Flat Top entered into a long-term power hedge covering the period from August 1, 2018, to July 31, 2031. The power hedge provides for the Corporation to receive a fixed dollar amount per MWh for a fixed quantity of power. Flat Top and the hedge provider settle net on a monthly basis. The other comprehensive income consists solely of the effective portion of changes in the fair value of the power hedge. Flat Top hedges approximately 81% of its output; the power hedge had a net positive value of $24.3 million at June 30, 2018.

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

**Summary Statement of Financial Position**

| | As at June 30, 2018 |
|---|---|
| Current assets | 21,907 |
| Non-current assets | 481,322 |
| | 503,229 |
| | |
| Current liabilities | 24,317 |
| Non-current liabilities | 12,969 |
| Sponsors equity interest | 183,669 |
| Tax equity interest | 282,274 |
| | 503,229 |

One of the primary incentives for renewable energy in the United States has been the PTC program, whereby corporations that generate electricity from renewable energy sources, including wind, are eligible for tax credits which provide a tax benefit for each unit of generation for the first 10 years of the facility's operation (until 2028 for Flat Top). The Flat Top Tax Equity Investors are allocated a portion of Flat Top's taxable income (losses) and PTCs and a portion of the cash generated until they achieve an agreed after-tax investment return. After the Flip Point, the Flat Top Tax Equity Investors will be allocated 5% of cash distributions and taxable income (losses) and the sponsors will be allocated 95% of all cash distributions and taxable income (losses).

For the three-month period ended June 30, 2018, and the period from March 23, 2018, to June 30, 2018, the wind facility generated approximately $7.1 million and $7.7 million of PTCs.

The Tax Equity Investors and Sponsors' taxable income (losses) and PTCs and cash distributions allocations are detailed in the table below. These allocations will change when the Tax Equity Investors reach their expected return.

| | Tax Equity Investors | Sponsors |
|---|---|---|
| Taxable income (losses) and PTCs | 99.00% | 1.00% |
| Cash distributions | 21.97% | 78.03% |

Tax equity investors in U.S. projects generally require sponsor guaranties as a condition to their investment. To support the tax equity investments at Flat Top, Alterra, a subsidiary of Innergex, executed a guarantee indemnifying the Tax Equity Investors against certain breaches of project level representations, warranties and covenants and other events. The Corporation believes these indemnifications cover matters that are substantially under its control and very unlikely to occur.

## Dokie

The Corporation holds a 25.5% interest in the Dokie wind facility.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 7,039 | 12,115 |
| Operating, general and administrative expenses | 2,038 | 3,321 |
| Adjusted EBITDA[1] | 5,001 | 8,794 |
| Finance costs | 2,748 | 4,601 |
| Other net revenues | (30) | (75) |
| Depreciation and amortization | 2,885 | 4,882 |
| Net loss and comprehensive loss | (602) | (614) |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

For the three-month period ended June 30, 2018, and the period from February 6, 2018, to June 30, 2018, production was 113% and 104% of the LTA due mainly to high winds in the second quarter partially offset by below-average wind regimes from February 6, 2018, to March 31, 2018.

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

**Summary Statement of Financial Position**

| | As at June 30, 2018 |
|---|---|
| Current assets | 7,853 |
| Non-current assets | 233,826 |
| | 241,679 |
| | |
| Current liabilities | 8,093 |
| Non-current liabilities | 138,629 |
| Partner's equity | 94,957 |
| | 241,679 |

## Jimmie Creek

The Corporation holds a 50.99% interest in the Jimmie Creek hydro facility.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 4,393 | 4,500 |
| Operating, general and administrative expenses | 808 | 1,252 |
| Adjusted EBITDA[1] | 3,585 | 3,248 |
| Finance costs | 2,356 | 3,935 |
| Other net expenses | 122 | 102 |
| Depreciation and amortization | 1,214 | 2,023 |
| Net loss and comprehensive loss | (107) | (2,812) |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

For the three-month period ended June 30, 2018, and the period from February 6, 2018, to June 30, 2018, production was 127% and 126% of the LTA due mainly to above-average water flows.

The net loss and comprehensive income is primarily due to the seasonal variations of generation with only 28% of generation occurring in the first half of the year (27% of which is generated from April to June).

**Summary Statement of Financial Position**

| | As at June 30, 2018 |
|---|---|
| Current assets | 9,492 |
| Non-current assets | 233,738 |
| | 243,230 |
| | |
| Current liabilities | 5,299 |
| Non-current liabilities | 166,866 |
| Partner's equity | 71,065 |
| | 243,230 |

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

## Umbata Falls

The Corporation holds a 49% interest in the Umbata Falls hydro facility.

**Summary Statements of Earnings and Comprehensive Income**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | 2,910 | 4,358 | 4,591 | 6,566 |
| Operating and general and administrative expenses | 220 | 234 | 464 | 450 |
| Adjusted EBITDA[1] | 2,690 | 4,124 | 4,127 | 6,116 |
| Finance costs | 567 | 608 | 1,135 | 1,208 |
| Other net revenues | (22) | (9) | (39) | (17) |
| Depreciation and amortization | 1,003 | 1,004 | 2,006 | 2,009 |
| Unrealized net gain on derivative financial instruments | (276) | (812) | (687) | (779) |
| Net earnings and comprehensive income | 1,418 | 3,333 | 1,712 | 3,695 |
| Distributions received from the joint venture by the Corporation | 802 | 708 | 802 | 708 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

For the three- and six-month periods ended June 30, 2018, production was 98% and 104% of the LTA due to average water flows.

The decreases in Adjusted EBITDA for the three- and six-month periods ended June 30, 2018, are due mainly to lower production and revenues this year compared with the same periods last year and to the end of the EcoEnergy program subsidies in May 2018.

Net earnings and comprehensive income decreases reflect the lower revenues.

**Summary Statements of Financial Position**

| | As at | |
|---|---|---|
| | June 30, 2018 | December 31, 2017 |
| Current assets | 3,422 | 3,550 |
| Non-current assets | 58,675 | 60,658 |
| | 62,097 | 64,208 |
| Current liabilities | 2,745 | 3,512 |
| Non-current liabilities | 39,505 | 40,924 |
| Partners' equity | 19,847 | 19,772 |
| | 62,097 | 64,208 |

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

## Viger-Denonville

The Corporation holds a 50% interest in the Viger-Denonville wind facility.

**Summary Statements of Earnings and Comprehensive Income**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | 2,644 | 2,185 | 6,010 | 5,247 |
| Operating and general and administrative expenses | 482 | 433 | 1,010 | 947 |
| Adjusted EBITDA[1] | 2,162 | 1,752 | 5,000 | 4,300 |
| Finance costs | 842 | 866 | 1,660 | 1,740 |
| Other net revenues | (18) | (9) | (34) | (17) |
| Depreciation and amortization | 627 | 730 | 1,254 | 1,459 |
| Unrealized net gain on derivative financial instruments | (156) | (211) | (326) | (335) |
| Net earnings | 867 | 376 | 2,446 | 1,453 |
| Other comprehensive income | 109 | 646 | 343 | 518 |
| Total comprehensive income | 976 | 1,022 | 2,789 | 1,971 |
| | | | | |
| Distributions received from the joint venture by the Corporation | 425 | 263 | 1,088 | 553 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

For the three- and six-month periods ended June 30, 2018, production was 114% and 112% of the LTA due mainly to an above-average wind regime.

For the three- and six-month periods ended June 30, 2018, the Adjusted EBITDA increased due mainly to higher production compared with last year.

For the three- and six-month periods ended June 30, 2018, the increases in net earnings compared with last year are due mainly to higher Adjusted EBITDA.

For the three- and six-month periods ended June 30, 2018, the decreases in other comprehensive income are attributable mainly to smaller unrealized net gains on financial instruments.

**Summary Statements of Financial Position**

| | As at | |
|---|---|---|
| | June 30, 2018 | December 31, 2017 |
| Current assets | 2,596 | 3,005 |
| Non-current assets | 52,400 | 53,812 |
| | 54,996 | 56,817 |
| | | |
| Current liabilities | 4,048 | 4,355 |
| Non-current liabilities | 47,792 | 49,920 |
| Partners' equity | 3,156 | 2,542 |
| | 54,996 | 56,817 |

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

## Spartan

The Corporation owns 100% of the sponsor equity interest in the Spartan solar facility and none of the tax equity interest which is owned by a third party.

**Summary Statements of Earnings and Comprehensive Income**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 678 | 887 |
| Operating, general and administrative expenses | 101 | 142 |
| Adjusted EBITDA[1] | 577 | 745 |
| Finance costs | 220 | 330 |
| Other net expenses | 113 | 142 |
| Depreciation and amortization | 339 | 567 |
| Unrealized net gain on derivative financial instruments | — | (1) |
| Net loss | (95) | (293) |
| Other comprehensive income | 99 | 359 |
| Total comprehensive income | 4 | 66 |
| | | |
| Net (loss) earnings attributable to: | | |
| Sponsor | (165) | (195) |
| Tax equity investor | 70 | (98) |
| | (95) | (293) |
| | | |
| Total comprehensive (loss) income attributable to: | | |
| Sponsor | (165) | (192) |
| Tax equity investor | 169 | 258 |
| | 4 | 66 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

**Summary Statement of Financial Position**

| | As at June 30, 2018 |
|---|---|
| Current assets | 1,028 |
| Non-current assets | 27,557 |
| | 28,585 |
| | |
| Current liabilities | 704 |
| Non-current liabilities | 12,178 |
| Sponsor equity interest | 3,017 |
| Tax equity interest | 12,686 |
| | 28,585 |

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

## Kokomo

The Corporation holds a 90% sponsor equity interest in the Kokomo solar facility, with the remaining 10% sponsor equity interest and tax equity interest held by third parties.

**Summary Statements of Earnings and Comprehensive Income**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 273 | 388 |
| Operating, general and administrative expenses | 59 | 85 |
| Adjusted EBITDA[1] | 214 | 303 |
| Finance costs | 94 | 156 |
| Other net expenses | 5 | 19 |
| Depreciation and amortization | 163 | 274 |
| Net loss | (48) | (146) |
| Other comprehensive income | 54 | 189 |
| Total comprehensive income | 6 | 43 |
| | | |
| Net (loss) earnings attributable to: | | |
| Sponsors | (59) | (74) |
| Tax equity investor | 11 | (72) |
| | (48) | (146) |
| | | |
| Total comprehensive (loss) income attributable to: | | |
| Sponsors | (57) | (72) |
| Tax equity investor | 63 | 115 |
| | 6 | 43 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

**Summary Statement of Financial Position**

| | As at June 30, 2018 |
|---|---|
| Current assets | 139 |
| Non-current assets | 12,803 |
| | 12,942 |
| | |
| Current liabilities | 533 |
| Non-current liabilities | 5,174 |
| Sponsors equity interest | 2,171 |
| Tax equity interest | 5,064 |
| | 12,942 |

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

## Blue Lagoon

HS Orka holds a 30% interest in Blue Lagoon hf., which operates the Blue Lagoon geothermal spa in Iceland.

Reconciliation of the carrying amount of the interest in the associate recognized in the consolidated financial statements:

| | As at June 30, 2018 |
|---|---|
| Opening Balance, January 1, 2018 | — |
| Preliminary fair value pursuant to acquisition of Alterra | 141,135 |
| Share of comprehensive income | 3,016 |
| Distributions received | (7,557) |
| Foreign exchange | (70) |
| Ending Balance, June 30, 2018 | 136,524 |

## Commitments of joint ventures and associates

As at June 30, 2018, the Corporation's share of the expected schedule of commitment payments for the joint ventures and associates are as follows:

| Years of | Wind Power Generation |
|---|---|
| 2018 | 3,089 |
| 2019 | 7,101 |
| 2020 | 7,101 |
| 2021 | 7,101 |
| 2022 | 7,101 |
| Thereafter | 96,018 |
| Total | 127,511 |

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

# NON-WHOLLY OWNED SUBSIDIARIES

## HS Orka hf ("HS Orka")

The Corporation holds a 53.9% interest in HS Orka which produces and sells electricity from two operating geothermal plants located in Iceland, namely Reykjanes and Svartsengi.

**Summary Statements of Earnings and Comprehensive Income – HS Orka**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 25,578 | 41,995 |
| Adjusted EBITDA[1] | 6,336 | 8,090 |
| Net earnings [2] | 6,060 | 3,222 |
| Other comprehensive (loss) income | (35,016) | 1,789 |
| Total comprehensive (loss) income | (28,956) | 5,011 |
| | | |
| Net earnings attributable to: | | |
| Owners of the parent | 3,266 | 1,736 |
| Non-controlling interests | 2,794 | 1,486 |
| | 6,060 | 3,222 |
| | | |
| Total comprehensive (loss) income attributable to: | | |
| Owners of the parent | (15,607) | 2,701 |
| Non-controlling interests | (13,349) | 2,310 |
| | (28,956) | 5,011 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.
2. Expenses also include non-cash expenses, such as depreciation and amortization totalling $5.8 million and an unrealized net gain on financial instruments related to embedded derivatives totalling $4.7 million for the three-month period ended June 30, 2018. Expenses also include non-cash expenses, such as depreciation and amortization totalling $9.1 million and an unrealized net loss on financial instruments related to embedded derivatives totalling $5.1 million for the 145-day period ended June 30, 2018.

**Summary Statement of Financial Position – HS Orka**

| | As at June 30, 2018 |
|---|---|
| Current assets | 30,124 |
| Non-current assets | 847,826 |
| | 877,950 |
| | |
| Current liabilities | 31,835 |
| Non-current liabilities | 203,353 |
| Equity attributable to owners of the parent | 346,449 |
| Non-controlling interests | 296,313 |
| | 877,950 |

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

# RELATED PARTY TRANSACTIONS

Related party transactions conducted in the normal course of operations are measured at fair value which is the amount established and agreed to by the related parties, unless specific requirements within IFRS require different treatment.

As part of the Alterra Acquisition, the following debts were assumed: (i) in 2011, Ross J. Beaty, chairman of the board of directors and a large shareholder of Alterra, entered into a revolving credit facility with Alterra (the “Credit Facility”). The Credit Facility had a borrowing capacity of $20 million and made funds available to Alterra on a revolving basis at an interest rate of 8% per annum, compounded and payable monthly. In addition, a standby fee in the amount of 0.75% of the Credit Facility and a drawdown fee in the amount of 1.5% of amounts advanced, were payable in cash. The Credit Facility matured on March 31, 2018. Alterra had borrowed $17.3 million under the Credit Facility; and (ii) in October 2016, Ross J. Beaty loaned, through a five-year term bond, US$35.7 million to Alterra’s subsidiary Magma Energy Sweden A.B (the “Bond”). The Bond paid interest at 8.5% per annum with an upfront fee of 2% of the principal which was paid at closing of the financing. The Bond was collateralized by 15% of the outstanding shares in HS Orka. To optimize its treasury management, the Corporation repaid both the Credit Facility and the Bond in the first quarter.

# NON-IFRS MEASURES

This MD&A has been prepared in accordance with 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, Adjusted EBITDA Margin, Adjusted EBITDA Proportionate, Innergex's share of Adjusted EBITDA of joint ventures and associates, Adjusted Net Earnings (Loss), 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. Innergex believes that the presentation of this measure enhances the understanding of the Corporation's operating performance. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net earnings, as determined in accordance with IFRS. Please refer to the "Operating Results" section of this MD&A for the reconciliation of Adjusted EBITDA.

References in this document to "Adjusted EBITDA Margin" are to Adjusted EBITDA divided by revenues. Innergex believes that the presentation of this measure enhances the understanding of the Corporation's operating performance.

References in this document to "Innergex's share of Adjusted EBITDA of the joint ventures and associates" are to Innergex's ownership interest in the equity or in the sponsors' equity when applicable of the Adjusted EBITDA of the joint ventures and associates. Please refer to the "Investments in Joint Ventures and Associates" section of this MD&A for the reconciliation of Adjusted EBITDA Proportionate.

References in this document to "Adjusted EBITDA Proportionate" are to Adjusted EBITDA plus Innergex's share of Adjusted EBITDA of the joint ventures and associates. Innergex believes that the presentation of this measure enhances the understanding of the Corporation's operating performance. Readers are cautioned that Adjusted EBITDA Proportionate should not be construed as an alternative to net earnings, as determined in accordance with IFRS.

References to "Adjusted Net Earnings (Loss)" are to net earnings or losses of the Corporation, to which the following elements are added (subtracted): unrealized net (gain) loss on financial instruments; realized (gain) loss on financial instruments; income tax expense (recovery) related to the above items; and the share of unrealized net (gain) loss on derivative financial instruments of joint ventures and associates, net of related tax. Innergex uses derivative financial instruments to hedge its exposure to various risks, such as interest rate and foreign exchange risks. Accounting for derivatives under International Accounting Standards requires that all derivatives are marked-to-market with changes in the mark-to-market of the derivatives for which hedge accounting is not applied being taken to the profit and loss account. The application of this accounting standard results in a significant amount of profit and loss volatility arising from the use of derivatives that are not designated for hedge accounting. The Adjusted Net Earnings (Loss) of the Corporation aims to eliminate the impact of the mark-to-market rules on derivatives on the profit and loss of the Corporation. Innergex believes that the analysis and presentation of net earnings or loss on this basis enhances understanding of the Corporation's operating performance. Readers are cautioned that Adjusted Net Earnings (Loss) should not be construed as an alternative to net earnings, as determined in accordance with IFRS. Please refer to the "Operating Results" section of this MD&A for the reconciliation of Adjusted Net Earnings (Loss).

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 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), 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. Innergex believes that presentation of this measure enhances the understanding of the Corporation's cash generation capabilities, its ability to sustain current dividends and dividend increases and its ability to fund its growth. Readers are cautioned that Free Cash Flow should not be construed as an alternative to cash flows from operating activities, as determined in accordance with IFRS. Please refer to the "Free Cash Flow and Payout Ratio" section of this MD&A for the reconciliation of Free Cash Flow.

References to “Payout Ratio” are to dividends declared on common shares divided by Free Cash Flow. Innergex believes that this is a measure of its ability to sustain current dividends and dividend increases as well as its ability to fund its growth.

# 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”), including the Corporation's power production, prospective projects, successful development, construction and financing (including tax equity funding) of the projects under construction and the advanced-stage prospective projects, successful closing of previously announced acquisitions (including of the Cartier Wind Farms), sources and impact of funding such acquisitions (including the consummation and timing of the potential divestiture of selected assets and the participation of minority partner(s) in the Cartier Wind Farms), estimates of recoverable geothermal energy resources, business strategy, future development and growth prospects, business integration, governance, business outlook, objectives, plans and strategic priorities, and other statements that are not historical facts. Forward-Looking Information can generally be identified by the use of words such as “approximately”, “may”, “will”, "could", “believes", “expects", “intends”, "should", “plans”, “potential”, "project", “anticipates”, “estimates”, “scheduled” or “forecasts”, or other comparable terminology that state that certain events will or will not occur. It represents the projections and expectations of the Corporation relating to future events or results as of the date of this MD&A.

**Future-oriented financial information:** Forward-Looking Information includes future-oriented financial information or financial outlook within the meaning of securities laws, such as expected production, projected revenues, projected Adjusted EBITDA, and estimated project costs, to inform readers of the potential financial impact of expected results, of the expected commissioning of Development Projects, of the potential financial impact of the acquisitions, of the Corporation's ability to sustain current dividends 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, geothermal resources and solar irradiation, performance of operating facilities, project performance, economic, financial and financial market conditions, the Corporation’s success in developing and constructing new facilities, expectations and assumptions concerning availability of capital resources and timely performance by third parties of contractual obligations, receipt of regulatory approvals and that the acquisition of the Cartier Wind Farms, including financing thereof, occurs as planned.

**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 “Risk Factors” section of the Annual Information Form 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 the capital markets; liquidity risks related to derivative financial instruments; variability in hydrology, geothermal resources, wind regimes and solar irradiation; delays and cost overruns in the design and construction of projects; the ability to secure new power purchase agreements or renew any power purchase agreement; fluctuation affecting prospective power prices; health, safety and environmental risks; uncertainties surrounding the development of new facilities; obtainment of permits; 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; potential undisclosed liabilities associated with the Alterra Acquisition; failure to realize the anticipated benefits of the Alterra Acquisition and the acquisition of the Cartier Wind Farms; integration of the Alterra Acquisition and the acquisition of the Cartier Wind Farms; changes in governmental support to increase electricity to be generated from renewable sources by independent power producers; variability of installation performance and related penalties; 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; exposure to many different forms of taxation in various jurisdictions; changes in general economic conditions; regulatory and political risks; ability to secure appropriate land; reliance on PPAs; availability and reliability of transmission systems (including due to reliance on third parties); foreign market growth and development risks; foreign exchange fluctuations; increases in water rental cost or changes to regulations applicable to water use; assessment of water, wind, geothermal and sun resources and associated electricity production; natural disasters and *force majeure*; 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; 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; risks related to U.S. production and investment tax credits, changes in U.S. corporate tax rates and availability of tax equity financing; host country economic, social and political conditions; risk inherent to geothermal resources; aluminum price risks; geological occurrences, rockslides, avalanches or other occurrences outside the Corporation's control; adverse claims to property title; unknown liabilities; reliance on intellectual property and confidential agreements to protect our rights and confidential information.

There are also risks inherent to the Alterra Transaction, including incorrect assessments of the value of the other entity. There can be no assurance that the strategic, operational or financial benefits expected to result from the Alterra Transaction will be realized.

There are also risks inherent to the acquisition of TransCanada's stake in the five Cartier wind farms, including incorrect assessments of the value of the entity; failure to satisfy the closing conditions; exercise of termination rights by Innergex or TransCanada; failure to obtain the requisite regulatory approvals and other third-party consents, including approval by the Competition Bureau. Accordingly, there can be no assurance that the transaction will occur, or that it will occur on the terms and conditions, or at the time, as contemplated in this MD&A. The transaction could be modified, restructured or terminated. There can also be no assurance that the strategic, operational or financial benefits expected to result from the Transaction will be realized. In addition, the potential divestiture of selected assets (in whole our in part) and the participation of minority partner (s) in the Cartier Wind Farms are also subject to inherent risks and uncertainties including the outcomes of Innergex's exploration to find interested purchaser(s) and partner(s), the ability to correctly assess the value of the assets, the consummation and timing of any such transaction(s) and the terms of such transaction(s), if any, and if consummated, the ability of Innergex to realize the expected benefits of such transaction(s).

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.

| Principal Assumptions | Principal Risks and Uncertainties |
|---|---|
| **Expected production**<br>For each facility, the Corporation determines a long-term average annual level of electricity production ("LTA") over the expected life of the facility, based on engineers' studies that take into consideration a number of important factors: for hydroelectricity, the historically observed flows of the river, the operating head, the technology employed and the reserved aesthetic and ecological flows; for wind energy, the historical wind and meteorological conditions and turbine technology; for solar energy, the historical solar irradiation conditions, panel technology and expected solar panel degradation; and for geothermal power, the historical geothermal resources, natural depletion of geothermal resources over time, the technology used and the potential of energy loss to occur before delivery. 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 Dokie, East Toba, Flat Top, Jimmie Creek, Kokomo, Montrose Creek, Shannon, Spartan, Umbata Falls and Viger-Denonville, which are accounted for using the equity method). | Improper assessment of water, wind, sun and geothermal resources and associated electricity production<br>Variability in hydrology, wind regimes, solar irradiation and geothermal resources<br>Natural depletion of geothermal resources<br>Equipment failure or unexpected operations and maintenance activity<br>Natural disaster |

| Principal Assumptions | Principal Risks and Uncertainties |
| --- | --- |
| **Projected revenues**<br>For each facility, expected annual revenues are estimated by multiplying the LTA by a price for electricity stipulated in the PPA secured with a public utility or other creditworthy counterparty mainly. These PPAs 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, 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. Revenues at the HS Orka facilities also fluctuates with the price of aluminum, as certain of those PPAs are linked to such price. 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 Dokie, East Toba, Flat Top, Jimmie Creek, Kokomo, Montrose Creek, Shannon, Spartan, Umbata Falls, Viger-Denonville and Blue Lagoon spa, which are accounted for using the equity method). | Production levels below the LTA caused mainly by the risks and uncertainties mentioned above<br>Unexpected seasonal variability in the production and delivery of electricity<br>Lower-than-expected inflation rate<br>Changes in the purchase price of electricity upon renewal of a PPA |
| **Projected Adjusted EBITDA**<br>For each facility, the Corporation estimates annual operating earnings by subtracting from the estimated revenues the budgeted annual operating costs, which consist primarily of operators' salaries, insurance premiums, operations and maintenance expenditures, property taxes, royalties and cost of power (if applicable); these are predictable and relatively fixed, varying mainly with inflation (except for maintenance expenditures and cost of power). 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 (excludes Dokie, East Toba, Flat Top, Jimmie Creek, Kokomo, Montrose Creek, Shannon, Spartan, Umbata Falls, Viger-Denonville and Blue Lagoon spa, which are 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. | Lower revenues caused mainly by the risks and uncertainties mentioned above<br>Variability of facility performance and related penalties<br>Unexpected maintenance expenditures |
| **Estimated project costs, expected obtainment of permits, start of construction, work conducted and start of commercial operation for Development Projects or Prospective Projects**<br>For each development project, the Corporation provides an estimate of project costs based on its extensive experience as a developer, directly related incremental internal costs, site acquisition costs and financing costs, which are eventually adjusted for the projected costs provided by the engineering, procurement and construction ("EPC") contractor retained for the project.<br>The Corporation provides indications regarding scheduling and construction progress for its Development Projects and indications regarding its Prospective Projects, based on its extensive experience as a developer. | Performance of counterparties, such as the EPC contractors<br>Delays and cost overruns in the design and construction of projects<br>Obtainment of permits<br>Equipment supply<br>Interest rate fluctuations and financing risk<br>Relationships with stakeholders<br>Regulatory and political risks<br>Higher-than-expected inflation<br>Natural disaster<br>Outcome of insurance claims |
| **Intention to submit projects under requests for proposals**<br>The Corporation provides indications of its intention to submit projects under requests for proposals based on the state of readiness of some of its Prospective Projects and their compatibility with the announced terms of these requests for proposals. | Regulatory and political risks<br>Ability of the Corporation to execute its strategy for building shareholder value<br>Ability to secure new PPAs |
| **Qualification for PTCs and ITC**<br>For certain Development Projects in the United States, the Corporation has conducted on and off-site activities expected to qualify its Development Projects for PTCs or ITC at the full rate and to obtain tax equity financing on such basis. To assess the potential qualification of a project, the Corporation takes into account the construction work performed and the timing of such work. | Risks related to U.S. Production Tax Credit, Investment Tax Credit, changes in U.S. Corporate Tax<br>Risks related to the project qualification to be eligible to PTCs and ITC<br>Rates and availability of Tax Equity Financing<br>Regulatory and political risks<br>Delays and cost overruns in the design and construction of projects<br>Obtainment of permits |
| **Expected closing of the acquisition and of the Financing to be made by TD Securities and BMO Capital Markets**<br>The Corporation reasonably expects that the closing conditions will be completed by the deadlines. | Availability of the capital<br>Regulatory and political risks<br>Performance of the counterparties |

# ACCOUNTING CHANGES

## Revised IFRS affecting the reported financial performance and financial position in the current period

**IFRS 2 – Share-based Payments**

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payments, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The application of the amendments of this standard had no material impact on the amounts reported for the current period.

**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. The application of this standard had no material impact on the amounts reported for the current period.

## Retrospective application of IFRS 9 (2014) Financial Instruments

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. The application of this standard had an impact on the amounts reported for the current period.

A clarification to IFRS 9 was released in October 2017 related to the treatment of a modification of a financial liability that does not result in the derecognition of the financial liability. The amortized cost of the financial liability is recalculated using the modified cash flows and the original effective interest rate. Any change in the amortized cost is recognised in the statement of earnings in revenue or expense on the date of the modification or at the date of the application of IFRS 9 (2014). This change is required to be applied retrospectively.

The following changes shows the effects of the retrospective application to the modification of the Montagne-Sèche, L.P. debt in 2014 and the Stardale L.P. debt in 2016:

| | As presented on January 1, 2017 | Application of IFRS 9 (2014) | Restated balance as of January 1, 2017 |
|---|---|---|---|
| Long-term debt | 2,507,236 | (8,980) | 2,498,256 |
| Deferred tax liabilities | 176,965 | 2,403 | 179,368 |
| Deficit | (601,157) | 6,577 | (594,580) |

| | As presented on December 31, 2017 | Application of IFRS 9 (2014) | Restated balance as of December 31, 2017 |
|---|---|---|---|
| Long-term debt | 3,047,583 | (8,104) | 3,039,479 |
| Deferred tax liabilities | 215,593 | 2,168 | 217,761 |
| Deficit | (651,233) | 5,936 | (645,297) |

| | Year ended December 31, 2017 | Application of IFRS 9 (2014) | Restated balance for the year ended December 31, 2017 |
|---|---|---|---|
| Finance costs | 146,766 | 876 | 147,642 |
| Deferred income taxes expenses | 3,154 | (235) | 2,919 |

| | Three months ended June 30, 2017 | Application of IFRS 9 (2014) | Restated balance for the three months period ended June 30, 2017 |
|---|---|---|---|
| Finance costs | 39,064 | 223 | 39,287 |
| Deferred income taxes expenses | 1,697 | (60) | 1,637 |

| | Six months ended June 30, 2017 | Application of IFRS 9 (2014) | Restated balance for the six months period ended June 30, 2017 |
|---|---|---|---|
| Finance costs | 68,361 | 444 | 68,805 |
| Deferred income taxes expenses | 1,359 | (119) | 1,240 |

## IFRS issued but not yet effective

**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. Employees of the Corporation took training courses in order to start evaluating the impact this standard is expected to have on its consolidated financial statements. Identification of the leases to which this standard might apply is ongoing.

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

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

In accordance with Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings, the President and Chief Executive Officer and the Chief Financial Officer of the Corporation have certified that they have designed, or caused it 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 made known to the President and Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which the interim filings are being prepared; and (ii) the information required to be disclosed by the Corporation in its annual filings, interim filings and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.
- Internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no significant weakness relating to the design of DC&P as at June 30, 2018. Moreover, there were no material weakness relating to the design of ICFR as at June 30, 2018.

During the period beginning on April 1, 2018, and ended on June 30, 2018, there was no change in the ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

The President and Chief Executive Officer and the Chief Financial Officer have also limited the scope of the Corporation's design of DC&P and ICFR to exclude the controls, policies and procedures of Éole de Plan Fleury, Les Renardières and the Alterra Power Group Entities (collectively "entities excluded from the Corporation's control policies and procedures"). The evaluation of the design and the operating effectiveness of the DC&P and ICFR for these entities will be completed in the 12 months following their dates of acquisition. A summary of the financial information about the entities excluded is presented in the "Entities Excluded From the Corporation's Control Policies and Procedures" section of this MD&A.

# ENTITIES EXCLUDED FROM THE CORPORATION'S CONTROL POLICIES AND PROCEDURES

As stated in the "Establishment and Maintenance of DC&P and ICFR" section of this MD&A, the figures for Éole de Plan Fleury, Les Renardières and Alterra Power Group Entitities are excluded from the Corporation's control policies and procedures.

Summary financial information about the Éole de Plan Fleury, Les Renardières and Alterra Power Group Entities is set out below:

**Summary Statement of Earnings and Comprehensive Income – Éole de Plan Fleury and Les Renardières**

| | Three months ended June 30, 2018 | Six months ended June 30, 2018 |
|---|---|---|
| Revenues | 2,648 | 7,672 |
| Adjusted EBITDA[1] | 2,818 | 6,842 |
| Net (loss) earnings | (170) | 1,671 |
| Other comprehensive (loss) income | (104) | 12 |
| Total comprehensive (loss) income | (274) | 1,683 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

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

**Summary Statement of Financial Position – Éole de Plan Fleury and Les Renardières**

| | As at June 30, 2018 |
|---|---|
| Current assets | 10,414 |
| Non-current assets | 163,086 |
| | 173,500 |
| | |
| Current liabilities | 10,455 |
| Non-current liabilities | 119,712 |
| Equity | 43,333 |
| | 173,500 |

**Summary Statement of Earnings and Comprehensive Income – Alterra Power Group Entities**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 25,578 | 41,995 |
| Adjusted EBITDA[1] | 5,720 | 10,375 |
| Net loss | (2,588) | (7,062) |
| Other comprehensive (loss) income | (3,793) | 13,378 |
| Total comprehensive (loss) income | (6,381) | 6,316 |

1. Adjusted EBITDA is not a recognized measure under IFRS and therefore may not be comparable to those presented by other issuers. Please refer to the "Non-IFRS Measures" section of this MD&A for more information.

**Summary Statement of Financial Position – Alterra Power Group Entities**

| | As at June 30, 2018 |
|---|---|
| Current assets | 37,655 |
| Non-current assets | 1,273,603 |
| | 1,311,258 |
| | |
| Current liabilities | 36,245 |
| Non-current liabilities | 520,297 |
| Equity | 457,182 |
| Non-controlling interests | 297,534 |
| | 1,311,258 |

# SUBSEQUENT EVENTS

**Acquisition of a solar project in Texas, United States**

On July 2, 2018, the Corporation announced the acquisition of a 250 $MW_{AC}$/315 $MW_{DC}$ photovoltaic solar project located in Winkler County, Texas. Full notice to proceed with construction was also issued on July 2, 2018, and commercial operation should be reached in the third quarter of 2019. The project is expecting a projected Adjusted EBITDA of approximately US$20.2 million ($26.7 million) for 12 months of operation. Following cash distributions to the Tax Equity Investor, the distributions receivable by Innergex prior to debt service would be approximately US$13.8 million ($18.2 million). The project is also eligible to receive a federal Investment Tax Credit (ITC) equal to approximately 30% of the project's capital costs. The ITC will be mostly allocated to the Tax Equity Investor. After the seventh year of operation, it is expected that approximately 95% of the projected Adjusted EBITDA, corresponding to about US$19.6 million ($25.9 million) based on the same assumptions, would be available for distribution to Innergex prior to debt service.

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

Total construction costs are estimated at US$397 million ($524 million) and will be partly financed in priority through a US$292 million ($385 million) construction and long-term project financing. Innergex will fund its US$105 million ($139) equity commitment after the debt is fully drawn. This obligation will be supported by the issuance of a letter of credit.

The tax equity investment is expected to be entirely funded by the Tax Equity Investor. This investment will be used to repay the tax equity bridge loan, with the balance being distributed to Innergex.

**Partnership and acquisition in Chile**
On July 3, 2018, Innergex completed the previously announced joint venture partnership with Energia Llaima for a 50% ownership in the company. The Energia Coyanco hydro facility (12 MW) and the Pampa Elvira solar facility (34 MW) should generate projected Adjusted EBITDA of approximately US$6.5 million ($8.3 million). Innergex invested an initial amount of US$10 million ($12.8 million) through available funds under its corporate revolving credit facilities and has agreed to invest an additional US $100 million ($140.5 million) over a 12-month period, of which US$90 million was invested for the acquisition of the Duqueco hydro project.

On July 5, 2018, Innergex and Energia Llaima completed the previously announced acquisition of the 140 MW Duqueco hydro project in Chile. The Duqueco hydro project includes two hydro facilities commissioned in 2001, Peuchen (85 MW) and Mampil (55 MW). Innergex expects an Adjusted EBITDA of approximately US$21 million ($26.8 million) annually for the Duqueco project. The purchase price, net of an estimated US$10 million ($12.8 million) of cash, is approximately US$210 million ($268 million), subject to certain adjustments. A US$130 million ($166.0 million) 15-year term financing has been arranged and underwritten. The 15-year term is comprised of a bullet loan of US$70 million ($85.9 million) and carries a variable interest rate for which the Corporation intends to reduce its exposure by entering into long-term hedging instruments. Proceeds of the loan will be used to pay a portion of the purchase price. Energia Llaima's net share of the remaining purchase price amounted to about US$80 million ($102.2 million). In addition, Energia Llaima made a deposit to secure financing of US$10 million ($12.8 million).

**Acquisition of the partner's interest in the five Cartier wind farms**
On August 2, 2018, the Corporation announced that it had signed a final agreement to acquire TransCanada's 62% interest in five wind farms in Quebec's Gaspé peninsula, known as Baie-des-Sables, Carleton, Gros-Morne, L'Anse-à-Valleau and Montagne Sèche (the “Cartier Wind Farms”), and its 50% interest in the operating entities of the Cartier Wind Farms (the “Cartier Operating Entities”), for a total consideration of approximately $630 million. Innergex currently owns the remaining interests in both the Cartier Wind Farms and Cartier Operating Entities.

The Cartier Wind Farms are located in the Gaspésie region of Quebec. With an aggregated gross installed capacity of 590 MW, the expected long-term average annual power generation is approximately 1,780 GWh, enough to power about 80,900 Quebec households. All the electricity produced by these wind farms is sold to Hydro-Québec under existing PPAs at fixed prices, a portion of which is adjusted according to inflation indexes, for initial terms of 20 years, ending between 2026 and 2032.

Innergex expects the 62% acquired interest in the Cartier Wind Farms to generate revenues of approximately $82.9 million and projected Adjusted EBITDA of approximately $68.4 million annually.

Innergex has obtained commitments from two leading Canadian banks to backstop its existing credit facilities and to provide two short-term credit facilities to cover the purchase price and transaction costs in their entirety. The financing has been structured to allow Innergex to maintain a solid investment-grade rating.

A first one-year term credit facility of $400 million non-recourse to Innergex will allow the Corporation to put in place a non-recourse long-term financing at the project level based on the useful life of the assets. The 62% interest in Cartier Wind Farms being acquired is currently debt-free.

A second one-year term credit facility of $240 million will be reimbursed through the strategic divestment of a minority interest in the Cartier Wind Farms and of other assets that could further benefit the Corporation. Innergex intends to find a partner to acquire, in a structured transaction, a stake in Cartier Wind Farms, which will increase the shareholders' return while optimizing the investment structure. Innergex will keep a 100% ownership interest in Cartier Operating Entities.

Innergex also concluded that selected asset divestments to supply equity for the transaction are optimal for its long-term performance and outlook. Innergex believes there are a number of attractive, actionable opportunities to monetize selected assets or portions of existing assets in a manner that supports Innergex's long-term strategy. The Corporation will diligently investigate these various options to derive maximum value from its portfolio of assets. Although the timing of such sales is subject to prevailing market conditions, they are expected to be completed within a year.

# CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

| | Notes | Three months ended June 30 2018 | Three months ended June 30 2017 (Restated Note 2.2) | Six months ended June 30 2018 | Six months ended June 30 2017 (Restated Note 2.2) |
|---|---|---|---|---|---|
| **Revenues** | | 149,541 | 109,530 | 267,422 | 184,056 |
| **Expenses** | | | | | |
| Operating | 4 | 37,450 | 17,215 | 63,422 | 33,304 |
| General and administrative | | 8,899 | 4,757 | 16,557 | 9,335 |
| Prospective projects | | 4,065 | 1,638 | 8,973 | 4,556 |
| Earnings before finance costs, income taxes, depreciation, amortization, other net expenses (revenues), share of loss (earnings) of joint ventures and associates and unrealized net (gain) loss on financial instruments | | 99,127 | 85,920 | 178,470 | 136,861 |
| Finance costs | 5 | 49,438 | 39,287 | 95,109 | 68,805 |
| Other net expenses (revenues) | 6 | 1,427 | (413) | 3,615 | (772) |
| Earnings before income taxes, depreciation, amortization, share of loss (earnings) of joint ventures and associates and unrealized net (gain) loss on financial instruments | | 48,262 | 47,046 | 79,746 | 68,828 |
| Depreciation | 4,10 | 30,695 | 23,707 | 59,233 | 45,524 |
| Amortization | 4 | 11,071 | 8,257 | 21,705 | 16,022 |
| Share of loss (earnings) of joint ventures and associates | 7 | 1,258 | (1,821) | (1,838) | (2,537) |
| Unrealized net (gain) loss on financial instruments | 8 | (12,816) | 470 | (673) | (4,605) |
| Earnings before income taxes | | 18,054 | 16,433 | 1,319 | 14,424 |
| Income tax expense (recovery of) | | | | | |
| Current | | (14) | 859 | 2,524 | 1,743 |
| Deferred | | 1,282 | 1,637 | (3,403) | 1,240 |
| | | 1,268 | 2,496 | (879) | 2,983 |
| **Net earnings** | | 16,786 | 13,937 | 2,198 | 11,441 |
| **Net earnings attributable to:** | | | | | |
| Owners of the parent | | 13,331 | 14,404 | 6,714 | 16,698 |
| Non-controlling interests | | 3,455 | (467) | (4,516) | (5,257) |
| | | 16,786 | 13,937 | 2,198 | 11,441 |
| Weighted average number of common shares outstanding (in 000s) | 9 | 132,523 | 108,431 | 127,586 | 108,386 |
| Basic net earnings per share ($) | 9 | 0.09 | 0.12 | 0.03 | 0.13 |
| Diluted weighted average number of common shares outstanding (in 000s) | 9 | 133,251 | 109,426 | 128,308 | 109,362 |
| Diluted net earnings per share ($) | 9 | 0.09 | 0.12 | 0.03 | 0.13 |

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

# CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Notes | Three months ended June 30 2018 | Three months ended June 30 2017 (Restated Note 2.2) | Six months ended June 30 2018 | Six months ended June 30 2017 (Restated Note 2.2) |
|---|---|---|---|---|---|
| Net earnings | | 16,786 | 13,937 | 2,198 | 11,441 |
| Items of comprehensive income (loss) that will be subsequently reclassified to earnings: | | | | | |
| Foreign exchange (loss) gain on translation of self-sustaining foreign subsidiaries | | (21,243) | 120 | 5,311 | 103 |
| Related deferred tax | | 595 | (30) | 205 | (30) |
| Foreign exchange gain (loss) on the designated hedges on the investments in self-sustaining foreign subsidiaries | | 810 | (101) | (1,187) | 190 |
| Related deferred tax | | (370) | 94 | 322 | 18 |
| Change in fair value of hedging instruments | | (593) | 7,207 | 3,066 | 6,312 |
| Related deferred tax | | 89 | (2,006) | (758) | (1,766) |
| Share of change in fair value of hedging instruments of joint ventures and associates | | 20,808 | 323 | 12,873 | 323 |
| Related deferred tax | | (4,499) | (85) | (3,374) | (85) |
| Share of non-controlling interests in: | | | | | |
| Foreign exchange (loss) gain on translation of self-sustaining foreign subsidiaries | | (13,543) | 164 | 2,615 | 196 |
| Foreign exchange gain (loss) on the designated hedges on the investments in self-sustaining foreign subsidiaries | | 458 | (170) | (285) | (91) |
| Change in fair value of hedging instruments | | (98) | 965 | (90) | 939 |
| Related deferred tax | | 133 | (177) | 25 | (175) |
| Items of comprehensive income (loss) that will not be subsequently reclassified to earnings: | | | | | |
| Defined benefit plan actuarial losses | | (166) | — | (178) | — |
| Related deferred tax | | 33 | — | 36 | — |
| Other comprehensive (loss) income | | (17,586) | 6,304 | 18,581 | 5,934 |
| **Total comprehensive (loss) income** | | (800) | 20,241 | 20,779 | 17,375 |
| Other comprehensive (loss) income attributable to: | | | | | |
| Owners of the parent | | (4,536) | 5,522 | 16,316 | 5,065 |
| Non-controlling interests | | (13,050) | 782 | 2,265 | 869 |
| | | (17,586) | 6,304 | 18,581 | 5,934 |
| **Total comprehensive (loss) income attributable to:** | | | | | |
| Owners of the parent | | 8,795 | 19,926 | 23,030 | 21,763 |
| Non-controlling interests | | (9,595) | 315 | (2,251) | (4,388) |
| | | (800) | 20,241 | 20,779 | 17,375 |

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

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

# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at | Notes | June 30, 2018 | December 31, 2017 (Restated Note 2.2) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 232,646 | 61,914 |
| Restricted cash and short-term investments | | 48,035 | 58,676 |
| Accounts receivable | | 79,407 | 87,500 |
| Income tax receivable | | 102 | — |
| Derivative financial instruments | 8 | 3,133 | 5,416 |
| Prepaid and others | | 9,456 | 8,104 |
| | | 372,779 | 221,610 |
| **Non-current assets** | | | |
| Reserve accounts | | 52,334 | 49,970 |
| Property, plant and equipment | 10 | 3,646,747 | 3,188,238 |
| Intangible assets | | 840,488 | 654,081 |
| Project development costs | | 41,675 | — |
| Investments in joint ventures and associates | 7 | 454,959 | 11,011 |
| Derivative financial instruments | 8 | 10,058 | 9,558 |
| Deferred tax assets | | 36,859 | 11,873 |
| Goodwill | | 99,123 | 38,580 |
| Other long-term assets | | 22,386 | 5,535 |
| | | 5,577,408 | 4,190,456 |

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

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

# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at | Notes | June 30, 2018 | December 31, 2017 (Restated Note 2.2) |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Dividends payable to shareholders | | 24,022 | 19,406 |
| Accounts payable and other payables | | 104,368 | 91,032 |
| Income tax payable | | 3,489 | 3,282 |
| Derivative financial instruments | 8 | 16,199 | 22,749 |
| Current portion of long-term debt | 11 | 93,063 | 109,875 |
| Current portion of other liabilities | | 1,362 | 500 |
| | | 242,503 | 246,844 |
| **Non-current liabilities** | | | |
| Derivative financial instruments | 8 | 95,207 | 54,494 |
| Long-term debt | 11 | 3,496,118 | 3,039,479 |
| Other liabilities | | 129,666 | 79,507 |
| Liability portion of convertible debentures | 12 | 237,247 | 96,246 |
| Deferred tax liabilities | | 331,396 | 217,761 |
| | | 4,532,137 | 3,734,331 |
| **SHAREHOLDERS' EQUITY** | | | |
| Common share capital | 13 | 1,040 | 2,867 |
| Contributed surplus from reduction of capital on common shares | 13 c) | 1,270,822 | 939,047 |
| Preferred shares | | 131,069 | 131,069 |
| Share-based payment | | 1,755 | 1,713 |
| Equity portion of convertible debentures | 12 | 3,976 | 1,877 |
| Deficit | | (723,850) | (645,297) |
| Accumulated other comprehensive income | | 26,245 | 9,929 |
| Equity attributable to owners | | 711,057 | 441,205 |
| Non-controlling interests | | 334,214 | 14,920 |
| Total shareholders' equity | | 1,045,271 | 456,125 |
| | | 5,577,408 | 4,190,456 |

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

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

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Equity attributable to owners | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| For the six-month period ended June 30, 2018 | 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, 2018 (Restated Note 2.2) | 2,867 | 939,047 | 131,069 | 1,713 | 1,877 | (645,297) | 9,929 | 441,205 | 14,920 | 456,125 |
| Net earnings (loss) | | | | | | 6,714 | | 6,714 | (4,516) | 2,198 |
| Other items of comprehensive income | | | | | | | 16,316 | 16,316 | 2,265 | 18,581 |
| Total comprehensive income (loss) | — | — | — | — | — | 6,714 | 16,316 | 23,030 | (2,251) | 20,779 |
| Common shares issued on February 6, 2018 (Note 3 a) | 330,607 | | | | | | | 330,607 | | 330,607 |
| Business acquisition (Note 3 a) | | | | | | | | — | 296,534 | 296,534 |
| Common shares issued through dividend reinvestment plan | 4,423 | | | | | | | 4,423 | | 4,423 |
| Reduction of capital on common shares (Note 13 c) | (337,785) | 337,785 | | | | | | — | | — |
| Share buyback of common shares | (20) | (6,010) | | | | (3,457) | | (9,487) | | (9,487) |
| Share-based payment | | | | 42 | | | | 42 | | 42 |
| Equity portion of convertible debentures issued (Net of $766 of deferred income taxes) (Note 12) | | | | | 2,099 | | | 2,099 | | 2,099 |
| Shares vested - PSP plan | 948 | | | | | | | 948 | | 948 |
| Buyback of non-controlling interests (Note 15 b) | | | | | | (33,808) | | (33,808) | 32,108 | (1,700) |
| Investments from non-controlling interests | | | | | | — | | — | 697 | 697 |
| Dividends declared on common shares | | | | | | (45,031) | | (45,031) | | (45,031) |
| Dividends declared on preferred shares | | | | | | (2,971) | | (2,971) | | (2,971) |
| Distributions to non-controlling interests | | | | | | | | — | (7,794) | (7,794) |
| Balance June 30, 2018 | 1,040 | 1,270,822 | 131,069 | 1,755 | 3,976 | (723,850) | 26,245 | 711,057 | 334,214 | 1,045,271 |

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

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

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| For the six-month period ended June 30, 2017 | Equity attributable to owners | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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, 2017 (Restated Note 2.2) | 162,862 | 775,413 | 131,069 | 2,199 | 1,877 | (594,580) | (1,743) | 477,097 | 14,712 | 491,809 |
| Net earnings (loss) (Restated Note 2.2) | | | | | | 16,698 | | 16,698 | (5,257) | 11,441 |
| Other items of comprehensive income | | | | | | | 5,065 | 5,065 | 869 | 5,934 |
| Total comprehensive income (loss) | — | — | — | — | — | 16,698 | 5,065 | 21,763 | (4,388) | 17,375 |
| Common shares issued through dividend reinvestment plan | 3,693 | | | | | | | 3,693 | | 3,693 |
| Reduction of capital on common shares | (166,460) | 166,460 | | | | | | | | |
| Share-based payment | | | | 48 | | | | 48 | | 48 |
| Investments from non-controlling interests | | | | | | | | — | 10,915 | 10,915 |
| Dividends declared on common shares | | | | | | (35,775) | | (35,775) | | (35,775) |
| Dividends declared on preferred shares | | | | | | (2,971) | | (2,971) | | (2,971) |
| Distributions to non-controlling interests | | | | | | | | — | (1,000) | (1,000) |
| Balance June 30, 2017 | 95 | 941,873 | 131,069 | 2,247 | 1,877 | (616,628) | 3,322 | 463,855 | 20,239 | 484,094 |

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

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

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Notes | Six months ended June 30 2018 | 2017 (Restated Note 2.2) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net earnings | | 2,198 | 11,441 |
| Items not affecting cash: | | | |
| Depreciation | | 59,233 | 45,524 |
| Amortization | | 21,705 | 16,022 |
| Share of earnings of joint ventures and associates | | (1,838) | (2,537) |
| Unrealized net gain on financial instruments | | (673) | (4,605) |
| Inflation compensation interest | 5 | 5,118 | 2,831 |
| Amortization of financing fees | 5 | 2,027 | 1,629 |
| Accretion of long-term debt and convertible debentures | 5 | 1,251 | 1,212 |
| Accretion expenses on other liabilities | 5 | 1,220 | 480 |
| Amortization of below market contracts | 6 | (1,135) | — |
| Actuarial gain from pension fund | | 32 | — |
| Share-based payment | | 42 | 48 |
| Deferred income taxes | | (3,403) | 1,240 |
| Others | | 79 | (131) |
| Interest on long-term debt and convertible debentures | 5 | 84,079 | 61,819 |
| Interest paid | | (74,265) | (57,672) |
| Gain on contingent considerations | 6 | — | (872) |
| Distributions received from joint ventures and associates | | 11,529 | 1,261 |
| Current income tax expense | | 2,524 | 1,744 |
| Net income taxes paid | | (2,156) | (1,347) |
| Effect of exchange rate fluctuations | | (203) | 1,135 |
| | | 107,364 | 79,222 |
| Changes in non-cash operating working capital items | 14 a) | 10,452 | (8,577) |
| | | 117,816 | 70,645 |
| **FINANCING ACTIVITIES** | | | |
| Dividends paid on common shares | | (35,991) | (31,498) |
| Dividends paid on preferred shares | | (2,971) | (2,971) |
| Distributions to non-controlling interests | | (7,659) | (1,000) |
| Investments from non-controlling interests | | — | 10,913 |
| Increase of long-term debt | | 542,118 | 300,866 |
| Repayment of long-term debt | | (437,021) | (163,203) |
| Payment of deferred financing costs | | (2,687) | (613) |
| Payment of other liabilities | | — | (246) |
| Net proceeds from issuance of convertible debentures | 12 | 143,590 | — |
| Payment for buyback of common shares | | (9,487) | — |
| | | 189,892 | 112,248 |

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

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

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Six months ended June 30 | |
|---|---|---|---|
| | | 2018 | 2017 |
| | Notes | | (Restated Note 2.2) |
| INVESTING ACTIVITIES | | | |
| Cash acquired on business acquisitions | 3 | 7,113 | 5,057 |
| Business acquisitions | 3 | (120,258) | (112,834) |
| Decrease of restricted cash and short-term investments | | 14,538 | 17,639 |
| Net funds (invested into) withdrawn from the reserve accounts | | (2,204) | 55 |
| Additions to property, plant and equipment | | (30,260) | (65,524) |
| Additions intangible assets | | (3,625) | — |
| Additions to project development costs | | (1,559) | — |
| Buyback of non-controlling interests | 15 b) | (1,700) | — |
| Reductions of other long-term assets | | 173 | 71 |
| Proceeds from disposal of property, plant and equipment | | 142 | 12 |
| | | (137,640) | (155,524) |
| Effects of exchange rate changes on cash and cash equivalents | | 664 | (785) |
| Net increase in cash and cash equivalents | | 170,732 | 26,584 |
| | | | |
| Cash and cash equivalents, beginning of period | | 61,914 | 56,227 |
| **Cash and cash equivalents, end of period** | | 232,646 | 82,811 |
| | | | |
| *Cash and cash equivalents is comprised of:* | | | |
| Cash | | 229,857 | 81,122 |
| Short-term investments | | 2,789 | 1,689 |
| | | 232,646 | 82,811 |

*Additional information is presented in Note 14.*

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

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

# DESCRIPTION OF BUSINESS

Innergex Renewable Energy Inc. ("Innergex" or 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, geothermal power and solar photovoltaic sectors. The head office of the Corporation is located at 1225 St-Charles Street West, 10th floor, Longueuil, Qc, J4K 0B9, Canada.

These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on August 13, 2018.

The Corporation's revenues are variable with each season and 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. As a result, earnings of interim periods should not be considered as indicative of results for an entire year.

# 1. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

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

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

# 2. APPLICATION OF IFRS

## 2.1 Revised IFRS affecting the reported financial performance and financial position in the current period

**IFRS 2- Share-based Payments**

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payments, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The application of the amendments of this standard had no material impact on the amounts reported for the current period.

**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. The application of this standard had no material impact on the amounts reported for the current period.

## 2.2 Retrospective application of IFRS 9 (2014) Financial Instruments

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. The application of this standard had an impact on the amounts reported for the current period.

A clarification to IFRS 9 was released in October 2017 related to the treatment of a modification of a financial liability that does not result in the derecognition of the financial liability. The amortized cost of the financial liability is recalculated using the modified cash flows and the original effective interest rate. Any change in the amortized cost is recognised in the statement of earnings in revenue or expense on the date of the modification or at the date of the application of IFRS 9 (2014). This change is required to be applied retrospectively.

The following changes shows the effects of the retrospective application to the modification of the Montagne-Sèche, L.P. debt in 2014 and the Stardale L.P. debt in 2016:

| | As presented on January 1, 2017 | Application of IFRS 9 (2014) | Restated balance as of January 1, 2017 |
|---|---|---|---|
| Long-term debt | 2,507,236 | (8,980) | 2,498,256 |
| Deferred tax liabilities | 176,965 | 2,403 | 179,368 |
| Deficit | (601,157) | 6,577 | (594,580) |

| | As presented on December 31, 2017 | Application of IFRS 9 (2014) | Restated balance as of December 31, 2017 |
|---|---|---|---|
| Long-term debt | 3,047,583 | (8,104) | 3,039,479 |
| Deferred tax liabilities | 215,593 | 2,168 | 217,761 |
| Deficit | (651,233) | 5,936 | (645,297) |

| | Year ended December 31, 2017 | Application of IFRS 9 (2014) | Restated balance for the year ended December 31, 2017 |
|---|---|---|---|
| Finance costs | 146,766 | 876 | 147,642 |
| Deferred income taxes expenses | 3,154 | (235) | 2,919 |

| | Three months ended June 30, 2017 | Application of IFRS 9 (2014) | Restated balance for the three months period ended June 30, 2017 |
|---|---|---|---|
| Finance costs | 39,064 | 223 | 39,287 |
| Deferred income taxes expenses | 1,697 | (60) | 1,637 |

| | Six months ended June 30, 2017 | Application of IFRS 9 (2014) | Restated balance for the six months period ended June 30, 2017 |
|---|---|---|---|
| Finance costs | 68,361 | 444 | 68,805 |
| Deferred income taxes expenses | 1,359 | (119) | 1,240 |

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

### 2.3 IFRS issued but not yet effective

**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. Employees of the Corporation took training courses in order to start evaluating the impact this standard is expected to have on its consolidated financial statements. Identification of the leases to which this standard might apply is ongoing.

## 3. BUSINESS ACQUISITIONS

### a. Acquisition of Alterra Power Corp

On February 6, 2018, Innergex acquired all of the issued and outstanding common shares of Alterra Power Corp ("Alterra").

The Innergex common shares issuable to Alterra shareholders with the transaction represent an ownership of approximately 18% of the combined corporation. One member of the Board of Directors of Alterra joined the Board of Directors of Innergex at the closing of the transaction.

The total purchase price for Alterra is $450,865 comprised of a cash consideration of $120,258 and the issuance of 24,327,225 common shares of the Corporation at a price of $13.59 for a value of $330,607.

Alterra and its subsidiaries are engaged in the development, construction and operation of renewable energy projects. As at February 6, 2018, Alterra's operating facilities consisted of a 53.9% net interest in two geothermal power plants in Iceland ("Svartsengi" and "Reykjanes"), and a 30% interest in Blue Lagoon, which operates the Blue Lagoon geothermal spa in Iceland ("Blue Lagoon"). It also consisted of a 40% net interest in two run of river hydro power plants ("Toba Montrose"), a 25.5% net interest in a wind farm ("Dokie"), a 51% net interest in a run of river hydro power plant ("Jimmie Creek") in British Columbia, a 50% net interest in the sponsor equity of a wind farm ("Shannon") located in Texas, a 90% net interest in the sponsor equity of a solar project ("Kokomo") located in Indiana and a 100% net interest in the sponsor equity of a solar project ("Spartan") located in Michigan.

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. Alterra acquisition added an additional gross installed capacity of 2,896 MW to the Corporation's portfolio.

The following table reflects the preliminary acquisition accounting and the fair value of the net assets acquired:

| | Preliminary acquisition accounting |
|---|---|
| Cash and cash equivalents | 7,113 |
| Restricted cash and short-term investments | 4,213 |
| Accounts receivable | 17,774 |
| Prepaid and others | 3,895 |
| Property, plant and equipment | 487,607 |
| Intangible assets | 191,548 |
| Project development costs | 39,304 |
| Investments in joint ventures and associates | 430,709 |
| Goodwill | 59,923 |
| Other long term assets | 16,281 |
| Accounts payable and other payables | (39,610) |
| Long-term debt | (305,045) |
| Derivative financial instruments | (31,194) |
| Other liabilities | (48,168) |
| Deferred tax liabilities | (86,951) |
| Non controlling interests | (296,534) |
| **Net assets acquired** | 450,865 |

The acquisition accounting remains subject to the completion of the valuation of working capital adjustments, property, plant and equipment, intangible assets, project development costs, investments in joint ventures and associates, goodwill, long-term debt, deferred tax liabilities and consequential adjustments.

The transaction costs relating to this acquisition have been expensed in accordance with IFRS 3 (see note 6).

If the acquisition had taken place on January 1, 2018, the consolidated revenues and net loss for the six-month period ended June 30, 2018 would have been $278,827 and $20,393 respectively.

The amounts of revenues and net loss of the facilities since February 6, 2018 included in the consolidated statement of earnings are $41,995 and $7,062 respectively for the 145 days ended June 30, 2018.

### b. Acquisition of Rougemont 1-2 and Vaite wind facilities

The Corporation completed the allocation of the purchase for the Rougement 1-2 and Vaite wind facilities that were acquired on May 24,2017. The adjustments made resulted in an increase to intangible assets and long-term debt of €4,294.

### c. Acquisition of Plan Fleury and Les Renardières wind facilities

The Corporation adjusted the allocation of the purchase for the Plan Fleury and Les Renardières wind facilities that were acquired August 25, 2017. The adjustments made resulted in an increase to intangible assets and long-term debt of €1,124.

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

# 4. OPERATING EXPENSES

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Salaries | 1,369 | 1,244 | 2,677 | 2,521 |
| Insurance | 1,090 | 928 | 2,270 | 1,805 |
| Operation and maintenance | 26,262 | 7,058 | 43,404 | 12,609 |
| Property taxes and royalties | 8,729 | 7,985 | 15,071 | 16,369 |
| | 37,450 | 17,215 | 63,422 | 33,304 |

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

# 5. FINANCE COSTS

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | | Restated (Note 2.2) | | Restated (Note 2.2) |
| Interest on long-term debt and on convertible debentures | 42,909 | 34,840 | 84,079 | 61,819 |
| Inflation compensation interest | 3,409 | 1,956 | 5,118 | 2,831 |
| Amortization of financing fees | 1,125 | 868 | 2,027 | 1,629 |
| Accretion of long-term debt and convertible debentures | 708 | 791 | 1,251 | 1,212 |
| Accretion expenses on other liabilities | 583 | 248 | 1,220 | 480 |
| Others | 704 | 584 | 1,414 | 834 |
| | 49,438 | 39,287 | 95,109 | 68,805 |

# 6. OTHER NET EXPENSES (REVENUES)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Transaction costs | 1,156 | 974 | 6,171 | 1,657 |
| Realized loss (gain) on derivative financial instruments | 2 | — | (826) | — |
| Realized loss (gain) on foreign exchange | 1,332 | (166) | 518 | (232) |
| Gain on contingent considerations | — | (615) | — | (872) |
| Other net revenues | (718) | (596) | (1,435) | (1,314) |
| Loss (gain) on disposal of property, plant and equipment | 330 | (10) | 322 | (11) |
| Amortization of below market contract | (675) | — | (1,135) | — |
| | 1,427 | (413) | 3,615 | (772) |

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

# 7. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

## 7.1 Details of material joint ventures and associates

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.

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20% and 50% of the voting power of another entity.

Joint ventures and associates are accounted for using the equity method in these consolidated financial statements.

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

| Joint ventures and associates | Principal activity | Place of creation and principal place of operation | Proportion of ownership interest and voting rights held by the Corporation | |
|---|---|---|---|---|
| | | | June 30, 2018 | December 31, 2017 |
| Toba Montrose | Own and operate two hydroelectric facilities | British Columbia | 40% | — |
| Shannon | Own and operate a wind farm | Texas | 50% [1] | — |
| Flat Top | Own and operate a wind farm | Texas | 51% [1] | — |
| Dokie | Own and operate a wind farm | British Columbia | 25.5% | — |
| Jimmie Creek | Own and operate a hydroelectric facility | British Columbia | 50.99% | — |
| Umbata Falls | Own and operate a hydroelectric facility | Ontario | 49% | 49% |
| Viger-Denonville | Own and operate a wind farm | Québec | 50% | 50% |
| Spartan | Own and operate a solar facility | Michigan | 100% [1] | — |
| Kokomo | Own and operate a solar facility | Indiana | 90% [1] | — |
| Blue Lagoon | Own and operate a geothermal spa | Iceland | 30% [2] | — |

1. Ownership interest is in the sponsor equity of Shannon, Flat Top, Spartan and Kokomo, however, tax equity partners hold 100% of the tax equity interests.
2. Ownership interest is through HS Orka hf. (which the Corporation owns 53.9%), which owns a 30% interest in the Blue Lagoon

| Carrying amounts of the investments in joint ventures and associates | As at | |
|---|---|---|
| Joint ventures and associates | June 30, 2018 | December 31, 2017 |
| Toba Montrose | 82,162 | — |
| Shannon | 65,722 | — |
| Flat Top | 93,671 | — |
| Dokie | 24,214 | — |
| Jimmie Creek | 36,236 | — |
| Umbata Falls | 9,725 | 9,688 |
| Viger-Denonville | 1,578 | 1,271 |
| Spartan | 3,017 | — |
| Kokomo | 1,954 | — |
| Blue Lagoon | 136,524 | — |
| Others | 156 | 52 |
| | 454,959 | 11,011 |

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

The summarized financial information below represents amounts shown in the joint ventures' and associates' financial statements prepared in accordance with IFRS.

## Toba Montrose

The Corporation holds a 51% voting interest and a 40% participating economic interest in East Toba and Montrose Creek hydro facilities ("Toba Montrose"). In 2046, the Corporation's economic interest will increase to 51% for no additional consideration and its partner's economic interest will decrease from 60% to 49%.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 19,747 | 20,316 |
| Operating, general and administrative expenses | 3,850 | 5,620 |
| | 15,897 | 14,696 |
| Finance costs | 7,045 | 11,229 |
| Other net revenues | (124) | (187) |
| Depreciation and amortization | 4,430 | 7,047 |
| Unrealized net gain on derivative financial instruments | (158) | (561) |
| Net earnings (loss) | 4,704 | (2,832) |
| Other comprehensive income (loss) | 923 | (2,316) |
| Total comprehensive income (loss) | 5,627 | (5,148) |

**Summary Statement of Financial Position**

| As at | June 30, 2018 |
|---|---|
| Cash and cash equivalents | 8,296 |
| Other current assets | 14,622 |
| Current assets | 22,918 |
| | |
| Non-current assets | 674,928 |
| | 697,846 |
| | |
| Accounts payable and other payables | 5,015 |
| Other current liabilities | 9,257 |
| Current liabilities | 14,272 |
| | |
| Non-current liabilities | 478,169 |
| Partner's equity | 205,405 |
| | 697,846 |

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 | June 30, 2018 |
|---|---|
| Net assets of the joint venture | 205,405 |
| Proportion of the Corporation's ownership interest in the joint venture | 40% |
| Carrying amount of the Corporation's interest in the joint venture | 82,162 |

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

**Toba Montrose's Debt**

At the date of the acquisition of Alterra, Toba Montrose had total loan facilities of $436,589.

The debt consists of two credit facilities which were entered into on November 8, 2007. The first is a $370,000, 38-year senior secured credit facility with a fixed interest rate to correspond with the three-year construction period and a repayment period over the 35-year term of the project's PPA with BC Hydro. The interest rate on this credit facility is 6.173% per annum. The second credit facility is a $100,000, 38-year senior secured credit facility with a floating interest rate, to correspond with the three-year construction period and a repayment period over the 35-year term of the project's PPA with BC Hydro. The floating interest rate on this credit facility is based on three month Bankers' Acceptance Rates plus a credit spread of 1.60% per annum. The principal repayments for both debts are set to $6,226 for the twelve-month period following acquisition.

Toba Montrose holds an interest rate swap contract which provides for quarterly settlements from November 1, 2010 to June 30, 2045. Pursuant to the interest rate swap agreement, Toba Montrose will receive interest on a notional amount at the three-month Bankers' Acceptance Rate from the counterparty and will pay interest on the notional amount at an interest rate of 5.341% per annum. The notional amount is $92,699 at June 30, 2018 and is reduced in amounts based on the scheduled principal repayments on the floating rate facility over the life of the interest rate swap.

Toba Montrose is subject to certain covenants regarding its loan agreements and as at June 30, 2018 was in compliance with all debt covenants.

## Shannon

The Corporation holds a 50% sponsor equity interest in the Shannon wind facility, with the remaining 50% sponsor equity interest and tax equity interest held by third parties.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 3,542 | 6,555 |
| Operating, general and administrative expenses | 2,404 | 3,899 |
| | 1,138 | 2,656 |
| Finance costs | 218 | 267 |
| Other net revenues | (816) | (784) |
| Depreciation and amortization | 2,329 | 3,952 |
| Unrealized net loss on derivative financial instruments | 3,548 | 378 |
| Net loss | (4,141) | (1,157) |
| Other comprehensive income | 19,264 | 9,006 |
| Total comprehensive income | 15,123 | 7,849 |
| | | |
| Net loss attributable to: | | |
| Sponsors: | | |
| Innergex | (1,455) | 1,885 |
| Other sponsor | (1,455) | 1,885 |
| Tax equity investors | (1,231) | (4,927) |
| | (4,141) | (1,157) |
| | | |
| Total comprehensive income (loss) attributable to: | | |
| Sponsors: | | |
| Innergex | 8,361 | 6,720 |
| Other sponsor | 8,361 | 6,720 |
| Tax equity investors | (1,599) | (5,591) |
| | 15,123 | 7,849 |
| | | |
| Distributions received from the joint venture by the Corporation | 852 | 1,545 |

On June 29, 2015 Shannon entered into a long-term power hedge covering the period from June 1, 2016 to May 31, 2029. The power hedge provides for Shannon to receive a fixed dollar per MWh for a fixed quantity of power. Shannon and the Hedge Provider settle net on a monthly basis. The other comprehensive loss consists solely of the effective portion of changes in the fair value of the power hedge.

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

**Summary Statement of Financial Position**

| As at | June 30, 2018 |
|---|---|
| Cash and cash equivalents | 3,564 |
| Other current assets | 2,648 |
| Current assets | 6,212 |
| | |
| Non-current assets | 376,408 |
| | 382,620 |
| | |
| Accounts payable and other payables | 8,744 |
| Other current liabilities | 3,272 |
| Current liabilities | 12,016 |
| | |
| Non-current liabilities | 11,784 |
| Sponsors equity interest | 131,443 |
| Tax equity interest | 227,377 |
| | 382,620 |

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 | June 30, 2018 |
|---|---|
| Net assets of the joint venture attributable to sponsors | 131,443 |
| Proportion of the Corporation's ownership interest in the joint venture | 50% |
| Carrying amount of the Corporation's interest in the joint venture | 65,722 |

The results of Shannon are calculated in accordance with the hypothetical liquidation at book value ("HLBV") method which allocates earnings or losses by measuring the distribution amounts that would be due to the members (investors) in a hypothetical liquidation of the entity at the net book value of the underlying assets. The HLBV method is consistent with accounting guidance which prescribes using this method for allocations where disproportionate allocations of cash and tax attributes occur and is the method that most appropriately reflects how an increase or decrease in net assets of the venture will affect cash payments to investors (both sponsors and tax equity investors) over the life of the venture and upon its liquidation.

One of the primary incentives for renewable energy in the United States has been the production tax credits program ("PTC"), whereby corporations that generate electricity from renewable energy sources, including wind, are eligible for tax credits which provide a tax benefit for each unit of generation for the first ten years of the facility's operation (until 2025). The Shannon tax equity investors are allocated a portion of Shannon's taxable income (losses) and PTCs and a portion of the cash generated until they achieve an agreed after-tax investment return (the "Flip Point"). After the Flip Point, the Shannon tax equity investors will be allocated 5% of cash distributions and taxable income (losses), and the sponsors will be allocated 95% of all cash distributions and taxable income (losses).

For the three-month period ended June 30, 2018 and the period from February 6, 2018 to June 30, 2018, the wind facility generated approximately $6,533 and $9,893 of PTCs.

The Tax Equity Investors and Sponsors' taxable income (losses) and PTCs and cash distributions allocations are detailed in the table below. These allocations will change when the Tax Equity Investors reach their expected return.

| | Tax Equity Investors | Sponsors |
|---|---|---|
| Taxable income (losses) and PTCs | 99.0% | 1.0% |
| Cash distributions | 64.1% | 35.9% |

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

Tax equity investors in US wind projects generally require sponsor guaranties as a condition to their investment. To support the tax equity investment in Shannon, Alterra Power Corp, a subsidiary of Innergex, executed a guarantee indemnifying the tax equity investors against certain breaches of project level representations, warranties and covenants and other events. The Corporation believes these indemnifications cover matters which are substantially under its control, and are very unlikely to occur.

## Flat Top

The Corporation holds a 51% sponsor equity interest in the Flat Top wind facility, with the remaining 49% sponsor equity interest and tax equity interest held by third parties. The wind farm began commercial operation on March 23, 2018.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 5,040 | 5,399 |
| Operating, general and administrative expenses | 3,227 | 3,628 |
| | 1,813 | 1,771 |
| Finance costs | 48 | 48 |
| Other net revenues | (3) | (6) |
| Depreciation and amortization | 3,329 | 3,536 |
| Unrealized net (gain) loss on derivative financial instruments | (53) | 4,059 |
| Net loss | (1,508) | (5,866) |
| Other comprehensive income | 22,126 | 18,607 |
| Total comprehensive income | 20,618 | 12,741 |
| | | |
| Net loss attributable to: | | |
| Sponsors: | | |
| Innergex | (3,200) | (2,153) |
| Other sponsor | (3,074) | (2,068) |
| Tax equity investors | 4,766 | (1,645) |
| | (1,508) | (5,866) |
| | | |
| Total comprehensive income attributable to: | | |
| Sponsors: | | |
| Innergex | 7,022 | 6,249 |
| Other sponsor | 6,747 | 6,004 |
| Tax equity investors | 6,849 | 488 |
| | 20,618 | 12,741 |
| | | |
| Distributions received from the joint venture by the Corporation | 558 | 558 |

On May 24, 2017 Flat Top entered into a long-term power hedge covering the period from August 1, 2018 to July 31, 2031. The power hedge provides for Flat Top to receive a fixed dollar per MWh for a fixed quantity of power. Flat Top and the Hedge Provider settle net on a monthly basis. The other comprehensive income consists solely of the effective portion of changes in the fair value of the power hedge.

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

**Summary Statement of Financial Position**

| As at | June 30, 2018 |
|---|---|
| Cash and cash equivalents | 1,626 |
| Other current assets | 20,281 |
| Current assets | 21,907 |
| | |
| Non-current assets | 481,322 |
| | 503,229 |
| | |
| Accounts payable and other payables | 8,860 |
| Other current liabilities | 15,457 |
| Current liabilities | 24,317 |
| | |
| Non-current liabilities | 12,969 |
| Sponsors equity interest | 183,669 |
| Tax equity interest | 282,274 |
| | 503,229 |

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 | June 30, 2018 |
|---|---|
| Net assets of the joint venture attributable to sponsors | 183,669 |
| Proportion of the Corporation's ownership interest in the joint venture | 51% |
| Carrying amount of the Corporation's interest in the joint venture | 93,671 |

As of the date of the acquisition of Alterra, Flat Top had total construction loan of US$211,082.

On March 23, 2018, Flat Top achieved commercial operations and concurrently Flat Top's US$216,678 construction loan was retired by a US$211,300 tax equity investment, a US$2,902 security deposit placed by Alterra on July 19, 2017 for future capital contributions and further capital contributions from the other sponsor.

The results of Flat Top are calculated in accordance with the HLBV method.

Flat Top is part of the PTC program in the United States which provide a tax benefit for each unit of generation for the first ten years of the facility's operation (until 2028). The Flat Top tax equity investors are allocated a portion of Flat Top's taxable income (losses) and PTCs and a portion of the cash generated until they achieve an agreed after-tax investment return (the "Flip Point"). After the Flip Point, the Flat Top tax equity investors will be allocated 5% of cash distributions and taxable income (losses), and the sponsors will be allocated 95% of all cash distributions and taxable income (losses).

For the three-month period ended June 30, 2018 and the period from March 23, 2018 to June 30, 2018, the wind facility generated approximately $7,068 and $7,663 of PTCs.

The Tax Equity Investors and Sponsors' taxable income (losses) and PTCs and cash distributions allocations are detailed in the table below. These allocations will change when the Tax Equity Investors reach their expected return.

| | Tax Equity Investors | Sponsors |
|---|---|---|
| Taxable income (losses) and PTCs | 99.00% | 1.00% |
| Cash distributions | 21.97% | 78.03% |

Tax equity investors in US wind projects generally require sponsor guaranties as a condition to their investment. To support the tax equity investment in Flat Top, Alterra Power Corp, a subsidiary of Innergex, executed a guarantee indemnifying the tax equity investors against certain breaches of project level representations, warranties and covenants and other events. The Corporation believes these indemnifications cover matters which are substantially under its control, and are very unlikely to occur.

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

## Dokie

The Corporation holds a 25.5% interest in the Dokie wind facility.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 7,039 | 12,115 |
| Operating, general and administrative expenses | 2,038 | 3,321 |
| | 5,001 | 8,794 |
| Finance costs | 2,748 | 4,601 |
| Other net revenues | (30) | (75) |
| Depreciation and amortization | 2,885 | 4,882 |
| Net loss and comprehensive loss | (602) | (614) |

**Summary Statement of Financial Position**

| As at | June 30, 2018 |
|---|---|
| Cash and cash equivalents | 3,782 |
| Other current assets | 4,071 |
| Current assets | 7,853 |
| | |
| Non-current assets | 233,826 |
| | 241,679 |
| | |
| Accounts payable and other payables | 649 |
| Other current liabilities | 7,444 |
| Current liabilities | 8,093 |
| | |
| Non-current liabilities | 138,629 |
| Partner's equity | 94,957 |
| | 241,679 |

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 | June 30, 2018 |
|---|---|
| Net assets of the joint venture | 94,957 |
| Proportion of the Corporation's ownership interest in the joint venture | 25.5% |
| Carrying amount of the Corporation's interest in the joint venture | 24,214 |

**Dokie's Debt**

As of the date of the acquisition of Alterra, Dokie had total loan facilities of $149,265.

Dokie executed a credit agreement on December 7, 2009 for a $175,000 loan with an annual fixed interest rate of 7.243% and a maturity date of December 31, 2030. The principal repayments are set to $7,358 for the twelve-month period following acquisition.

Dokie is subject to certain covenants regarding its loan agreements and as at June 30, 2018 was in compliance with all debt covenants.

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

## Jimmie Creek

The Corporation holds a 50.99% interest in the Jimmie Creek hydro facility.

**Summary Statements of Earnings and Comprehensive Income (Loss)**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 4,393 | 4,500 |
| Operating, general and administrative expenses | 808 | 1,252 |
| | 3,585 | 3,248 |
| Finance costs | 2,356 | 3,935 |
| Other net expenses | 122 | 102 |
| Depreciation and amortization | 1,214 | 2,023 |
| Net loss and comprehensive loss | (107) | (2,812) |

**Summary Statement of Financial Position**

| As at | June 30, 2018 |
|---|---|
| Cash and cash equivalents | 4,636 |
| Other current assets | 4,856 |
| Current assets | 9,492 |
| | |
| Non-current assets | 233,738 |
| | 243,230 |
| | |
| Accounts payable and other payables | 4,713 |
| Other current liabilities | 586 |
| Current liabilities | 5,299 |
| | |
| Non-current liabilities | 166,866 |
| Partner's equity | 71,065 |
| | 243,230 |

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 | June 30, 2018 |
|---|---|
| Net assets of the joint venture | 71,065 |
| Proportion of the Corporation's ownership interest in the joint venture | 50.99% |
| Carrying amount of the Corporation's interest in the joint venture | 36,236 |

**Jimmie Creek's Debt**
As of the date of the acquisition of Alterra, Jimmie Creek had total loan facilities of $167,558.

Jimmie Creek executed a credit agreement in October 2014 for a $176,450, 42-year senior secured credit facility at a fixed interest rate, which corresponded with the two-year construction period, and a repayment period over the 40-year term (plus final 10% bullet payment due on maturity) of the Jimmie Creek project's PPA with BC Hydro. The annual interest rate on the loan is fixed at 5.255%. The principal repayments are set to $741 for the twelve-month period following acquisition.

Jimmie Creek is subject to certain covenants regarding its loan agreements and as at June 30, 2018 was in compliance with all debt covenants.

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

## Umbata Falls

The Corporation holds a 49% interest in the Umbata Falls hydro facility.

**Summary Statements of Earnings and Comprehensive Income**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | 2,910 | 4,358 | 4,591 | 6,566 |
| Operating, general and administrative expenses | 220 | 234 | 464 | 450 |
| | 2,690 | 4,124 | 4,127 | 6,116 |
| Finance costs | 567 | 608 | 1,135 | 1,208 |
| Other net revenues | (22) | (9) | (39) | (17) |
| Depreciation and amortization | 1,003 | 1,004 | 2,006 | 2,009 |
| Unrealized net gain on derivative financial instruments | (276) | (812) | (687) | (779) |
| Net earnings and comprehensive income | 1,418 | 3,333 | 1,712 | 3,695 |
| | | | | |
| Distributions received from the joint venture by the Corporation | 802 | 708 | 802 | 708 |

**Summary Statements of Financial Position**

| As at | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | 2,244 | 1,620 |
| Other current assets | 1,178 | 1,930 |
| Current assets | 3,422 | 3,550 |
| | | |
| Non-current assets | 58,675 | 60,658 |
| | 62,097 | 64,208 |
| | | |
| Accounts payable and other payables | 204 | 198 |
| Other current liabilities | 2,541 | 3,314 |
| Current liabilities | 2,745 | 3,512 |
| | | |
| Non-current liabilities | 39,505 | 40,924 |
| Partner's equity | 19,847 | 19,772 |
| | 62,097 | 64,208 |

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 | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Net assets of the joint venture | 19,847 | 19,772 |
| Proportion of the Corporation's ownership interest in the joint venture | 49% | 49% |
| Carrying amount of the Corporation's interest in the joint venture | 9,725 | 9,688 |

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

## Viger-Denonville

The Corporation holds a 50% interest in the Viger-Denonville wind facility.

**Summary Statements of Earnings and Comprehensive Income**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | 2,644 | 2,185 | 6,010 | 5,247 |
| Operating, general and administrative expenses | 482 | 433 | 1,010 | 947 |
| | 2,162 | 1,752 | 5,000 | 4,300 |
| Finance costs | 842 | 866 | 1,660 | 1,740 |
| Other net revenues | (18) | (9) | (34) | (17) |
| Depreciation and amortization | 627 | 730 | 1,254 | 1,459 |
| Unrealized net gain on derivative financial instruments | (156) | (211) | (326) | (335) |
| Net earnings | 867 | 376 | 2,446 | 1,453 |
| Other comprehensive income | 109 | 646 | 343 | 518 |
| Total comprehensive income | 976 | 1,022 | 2,789 | 1,971 |
| Distributions received from the joint venture by the Corporation | 425 | 263 | 1,088 | 553 |

**Summary Statements of Financial Position**

| As at | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | 1,733 | 1,760 |
| Other current assets | 863 | 1,245 |
| Current assets | 2,596 | 3,005 |
| Non-current assets | 52,400 | 53,812 |
| | 54,996 | 56,817 |
| Accounts payable and other payables | 537 | 744 |
| Other current liabilities | 3,511 | 3,611 |
| Current liabilities | 4,048 | 4,355 |
| Non-current liabilities | 47,792 | 49,920 |
| Partner's equity | 3,156 | 2,542 |
| | 54,996 | 56,817 |

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 | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Net assets of the joint venture | 3,156 | 2,542 |
| Proportion of the Corporation's ownership interest in the joint venture | 50% | 50% |
| Carrying amount of the Corporation's interest in the joint venture | 1,578 | 1,271 |

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

## Spartan

The Corporation owns 100% of the sponsor equity interest in the Spartan solar facility while the tax equity interest is owned by a third party.

**Summary Statements of Earnings and Comprehensive Income**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 678 | 887 |
| Operating, general and administrative expenses | 101 | 142 |
| | 577 | 745 |
| Finance costs | 220 | 330 |
| Other net expenses | 113 | 142 |
| Depreciation and amortization | 339 | 567 |
| Unrealized net gain on derivative financial instruments | — | (1) |
| Net loss | (95) | (293) |
| Other comprehensive income | 99 | 359 |
| Total comprehensive income | 4 | 66 |
| | | |
| Net (loss) earnings attributable to: | | |
| Sponsor | (165) | (195) |
| Tax equity investor | 70 | (98) |
| | (95) | (293) |
| | | |
| Total comprehensive (loss) income attributable to: | | |
| Sponsor | (165) | (192) |
| Tax equity investor | 169 | 258 |
| | 4 | 66 |

**Summary Statement of Financial Position**

| As at | June 30, 2018 |
|---|---|
| Cash and cash equivalents | 336 |
| Other current assets | 692 |
| Current assets | 1,028 |
| | |
| Non-current assets | 27,557 |
| | 28,585 |
| | |
| Accounts payable and other payables | 237 |
| Other current liabilities | 467 |
| Current liabilities | 704 |
| | |
| Non-current liabilities | 12,178 |
| Sponsor equity interest | 3,017 |
| Tax equity interest | 12,686 |
| | 28,585 |

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

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 | June 30, 2018 |
|---|---|
| Net assets of the joint venture attributable to sponsor | 3,017 |
| Proportion of the Corporation's ownership interest in the joint venture | 100% |
| Carrying amount of the Corporation's interest in the joint venture | 3,017 |

As of the date of the acquisition of Alterra, Spartan had total loan facilities of US$10,029.

On December 22, 2017, Spartan entered into a US$10,200, 6 year senior secured term loan with a floating interest rate and a balloon payment based on a 6 year maturity and 20 year amortization. The floating interest rate is based on three month LIBOR plus a spread of 3.5% per annum. Concurrently, Spartan entered into an interest rate swap contract for the estimated operating term to effectively fix the interest rates on the term loan. Pursuant to the interest rate swap agreement, Spartan will receive interest on a notional amount at the three month LIBOR plus a spread of 3.5% per annum from the counterparty and will pay interest on the notional amount at an interest rate of 5.81% per annum. The notional amount is US$10,017 as at June 30, 2018 and is reduced in amounts based on the scheduled principal repayments on the term loan agreement over the life of the interest rate swap.

The principal repayments are set to US$379 for the twelve-month period following acquisition.

Spartan is subject to certain covenants regarding its loan agreements and as at June 30, 2018 was in compliance with all debt covenants.

## Kokomo

The Corporation holds a 90% sponsor equity interest in the Kokomo solar facility, with the remaining 10% sponsor equity interest and tax equity interest held by third parties.

**Summary Statements of Earnings and Comprehensive Income**

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| Revenues | 273 | 388 |
| Operating, general and administrative expenses | 59 | 85 |
| | 214 | 303 |
| Finance costs | 94 | 156 |
| Other net expenses | 5 | 19 |
| Depreciation and amortization | 163 | 274 |
| Net loss | (48) | (146) |
| Other comprehensive income | 54 | 189 |
| Total comprehensive income | 6 | 43 |
| | | |
| Net (loss) earnings attributable to: | | |
| Sponsors | (59) | (74) |
| Tax equity investor | 11 | (72) |
| | (48) | (146) |
| | | |
| Total comprehensive (loss) income attributable to: | | |
| Sponsors | (57) | (72) |
| Tax equity investor | 63 | 115 |
| | 6 | 43 |

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

**Summary Statement of Financial Position**

| As at | June 30, 2018 |
| --- | --- |
| Cash and cash equivalents | 98 |
| Other current assets | 41 |
| Current assets | 139 |
| | |
| Non-current assets | 12,803 |
| | 12,942 |
| | |
| Accounts payable and other payables | 275 |
| Other current liabilities | 258 |
| Current liabilities | 533 |
| | |
| Non-current liabilities | 5,174 |
| Sponsors equity interest | 2,171 |
| Tax equity interest | 5,064 |
| | 12,942 |

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 | June 30, 2018 |
| --- | --- |
| Net assets of the joint venture attributable to sponsors | 2,171 |
| Proportion of the Corporation's ownership interest in the joint venture | 90% |
| Carrying amount of the Corporation's interest in the joint venture | 1,954 |

As of the date of the acquisition of Alterra, Kokomo had total loan facilities of US$4,489.

On December 30, 2016, Kokomo entered into a US$5,000, 10 year senior secured term loan with a floating interest rate and a balloon payment based on a 10 year maturity and a 18 year amortization. The floating interest rate is based on three month LIBOR plus a spread of 3.5% per annum. Concurrently, Kokomo entered into an interest rate swap contract for the estimated operating term to effectively fix the interest rates on the term loan.

Pursuant to the interest rate swap agreement, Kokomo will receive interest on a notional amount at three month LIBOR plus a spread of 3.5% per annum from the counterparty and will pay interest on the notional amount at the interest rate of 5.35% per annum. The notional amount is US$4,675 as at June 30, 2018 and is reduced in amounts based on the scheduled principal repayments on the term loan agreement over the life of the interest rate swap.

The principal repayments are set to US$226 for the twelve-month period following acquisition.

Kokomo is subject to certain covenants regarding its loan agreements and as at June 30, 2018 was in compliance with all debt covenants.

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

## Blue Lagoon

HS Orka hf ("HS Orka"), holds a 30% interest in Blue Lagoon hf, which operates the Blue Lagoon geothermal spa in Iceland.

Reconciliation of the carrying amount of the interest in the associate recognized in the consolidated financial statements:

| As at | June 30, 2018 |
|---|---|
| Opening Balance, January 1, 2018 | — |
| Preliminary fair value pursuant to acquisition of Alterra | 141,135 |
| Share of comprehensive income | 3,016 |
| Distributions received | (7,557) |
| Foreign exchange | (70) |
| Ending Balance, June 30, 2018 | 136,524 |

### 7.2 Commitments of joint ventures and associates

As at June 30, 2018, the Corporation's share of the expected schedule of commitment payments for joint ventures and associates are as follows:

| Years of | Wind Power Generation |
|---|---|
| 2018 | 3,089 |
| 2019 | 7,101 |
| 2020 | 7,101 |
| 2021 | 7,101 |
| 2022 | 7,101 |
| Thereafter | 96,018 |
| Total | 127,511 |

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

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

As part of the acquisition of Alterra, the Corporation acquired HS Orka which has two power purchase agreements that have embedded derivatives that are accounted for separately from the host contracts. HS Orka signed power sales agreements on power supply until the year 2026 and the sale of power until the year 2019. Payments under the agreements are made in USD and are linked to the price of aluminum. These long-term power sales agreements feature embedded derivatives, the value of which is adjusted upon changes in the future price of aluminum. In evaluating the value of embedded derivatives, generally accepted valuation methods are applied, as the market value is not available. The fair value is based on Level 2 valuation techniques. The fair value of the embedded derivatives are calculated on the basis of the forward price of aluminum. The expected present value of cash flows based on the reporting date is calculated on the basis of the registered forward price of aluminum on the London Metal Exchange (LME) over the remaining lifetime of the contracts. The embedded derivatives are recorded at fair value at inception and at each subsequent reporting period based on the expected present value of cash flows. The fair value change of the embedded derivatives is recognized in earnings or loss. When calculating the present value, the discount rate the Corporation uses is based on the current government yield curve for US sovereign strips plus applicable counterparty risk spread which is calculated based on the credit rating of the counterparty.

Alterra holds hedge agreements to mitigate the risk of fluctuations in the interest rates on its long-term debts. The fair value is based on Level 2 valuation techniques. Hedge accounting is applied on these contracts.

| Contracts | Maturity | Early termination option | Notional Amounts June 30, 2018 |
|---|---|---|---|
| **Contracts used to hedge the interest rate risk** | | | |
| Interest rate swap, 7.9% | 2023 | None | 29,000 |
| Interest rate swap, 8.1% | 2023 | None | 49,000 |

### Extension of foreign exchange forward contracts

On April 23, 2018, the Corporation extended all of its foreign exchange forward contracts which hedge its exposure to foreign exchange rate on its investment in France. The contracts have been extended for a period of two years following their original expiry date ranging from April 2018 to August 2019.

| Contracts | Maturity | Early termination option | Notional Amounts June 30, 2018 |
|---|---|---|---|
| **Contracts used to hedge the foreign exchange risk** | | | |
| Foreign exchange forwards amortizing until 2041, allowing conversion at a fixed rate of CAD 1.7332/Euro (before 1.7575/Euro) | 2020 (before 2018) | none | 159,344 |
| Foreign exchange forwards amortizing until 2042, allowing conversion at a fixed rate of CAD 1.7340/Euro (before 1.7588/Euro) | 2020 (before 2018) | none | 49,957 |
| Foreign exchange forwards amortizing until 2041, allowing conversion at a fixed rate of CAD 1.6850/Euro (before 1.7150/Euro) | 2021 (before 2019) | none | 111,945 |
| Foreign exchange forwards amortizing until 2043, allowing conversion at a fixed rate of CAD 1.7654/Euro (before 1.7890/Euro) | 2021 (before 2019) | none | 167,963 |
| Foreign exchange forwards amortizing until 2043, allowing conversion at a fixed rate of CAD 1.7804/Euro (before 1.8011/Euro) | 2021 (before 2019) | none | 80,941 |

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

## 9. EARNINGS PER SHARE

The net earnings per share is computed as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | | (Restated Note 2.2) | | (Restated Note 2.2) |
| Net earnings attributable to owners of the parent | 13,331 | 14,404 | 6,714 | 16,698 |
| Dividends declared on preferred shares | (1,485) | (1,485) | (2,971) | (2,971) |
| Net earnings available to common shareholders | 11,846 | 12,919 | 3,743 | 13,727 |
| | | | | |
| Weighted average number of common shares (in 000s) | 132,523 | 108,431 | 127,586 | 108,386 |
| Basic net earnings per share ($) | 0.09 | 0.12 | 0.03 | 0.13 |
| | | | | |
| Weighted average number of common shares (in 000s) | 132,523 | 108,431 | 127,586 | 108,386 |
| Effect of dilutive elements on common shares (in 000s) (a) | 728 | 995 | 722 | 976 |
| Diluted weighted average number of common shares (in 000s) | 133,251 | 109,426 | 128,308 | 109,362 |
| Diluted net earnings per share ($) | 0.09 | 0.12 | 0.03 | 0.13 |

a. Stock options for which the exercise price was above the average market price of common shares are excluded from the calculation of diluted weighted average number of shares outstanding.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Shares that are excluded from the dilutive elements on common shares that can be issued from (in 000s): | | | | |
| Stock options | 203 | 126 | 203 | 126 |
| Convertible debentures | 14,167 | 6,667 | 14,167 | 6,667 |

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Lands | Hydroelectric facilities | Wind farm facilities | Solar facility | Geothermal facilities | Facilities under construction | Other equipments | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| As at January 1, 2018 | 3,055 | 2,081,857 | 1,410,294 | 124,322 | — | — | 14,476 | 3,634,004 |
| Additions | 77 | 755 | 143 | 132 | 7,930 | 6,877 | 1,194 | 17,108 |
| Business acquisitions (Note 3 a) | — | — | — | — | 430,305 | 56,250 | 1,052 | 487,607 |
| Dispositions | — | (435) | (143) | — | (472) | — | — | (1,050) |
| Other changes | — | (791) | (2,034) | — | — | — | (5) | (2,830) |
| Net foreign exchange differences | 8 | 386 | 15,329 | — | 1,122 | 106 | 93 | 17,044 |
| **As at June 30, 2018** | 3,140 | 2,081,772 | 1,423,589 | 124,454 | 438,885 | 63,233 | 16,810 | 4,151,883 |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| As at January 1, 2018 | — | (230,616) | (172,439) | (33,733) | — | — | (8,978) | (445,766) |
| Depreciation | — | (19,445) | (28,352) | (2,982) | (7,501) | — | (953) | (59,233) |
| Dispositions | — | 62 | 4 | — | 357 | — | — | 423 |
| Other changes | — | — | — | — | — | — | (2) | (2) |
| Net foreign exchange differences | — | (151) | (405) | — | 9 | — | (11) | (558) |
| **As at June 30, 2018** | — | (250,150) | (201,192) | (36,715) | (7,135) | — | (9,944) | (505,136) |
| | | | | | | | | |
| **Carrying amount as at June 30, 2018** | 3,140 | 1,831,622 | 1,222,397 | 87,739 | 431,750 | 63,233 | 6,866 | 3,646,747 |

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

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 credit facilities are capitalized for the portion of the financing actually used for a specific property, plant and equipment. Additions in the current period include $220 of capitalized financing costs incurred prior to commissioning.

The cost of the facilities were reduced by investment tax credits of $3,003 ($3,003 as at December 31, 2017).

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

# 11. LONG-TERM DEBT

(references to US$, € and ISK are in thousands)

### a. Increase to the revolving credit facilities

On February 6, 2018 the Corporation announced that it had increased its revolving credit facilities by $225,000 to $700,000 and added a new lender to the syndicate of lenders. The maturity of the revolving credit facilities remains December 2022.

### b. Alterra

As part of the acquisition of Alterra, the Corporation assumed the related loan facilities for a total value of $305,045.

- A $112,991 loan facility with three tranches (Tranche A: $65,335, Tranche B: $21,713, Tranche C: US$20,705). The loan facility has no scheduled payments of principal prior to maturity. The loan facility is secured by future cash flow, and indirect equity investments in Toba Montrose, Dokie, Jimmie Creek and Flat Top.
- A $76,919 (€49,641) HS Orka corporate loan. The loan carries an initial term of five years with options to extend the loan's term up to 18 years. The interest rate on the facility is the Euro Interbank Offered Rate ("EURIBOR") plus 3.15%. Primary uses of loan proceeds include construction of the Brúarvirkjun hydro project, drilling and other field development activities at Reykjanes. The loan will fund in tranches upon the fulfillment of certain conditions precedent. The loan was accounted for at its fair market value of $79,784 for an effective rate of 3.6%. The loan is secured by the operating assets of HS Orka, Reykjanes expansion and the Brúarvirkjun project.
- A $2,864 (ISK230,618) HS Orka corporate loan with an interest rate of 5.6% maturing in 2031. The loan was accounted for at its fair value of $2,805.
- A $48,155 (US$38,431) holding company bond owed by the subsidiary Magma Energy Sweden A.B ('Magma Sweden'). Under the terms of the bond, it became immediately payable upon the delisting of Alterra shares from the TSX as a result of the acquisition. Consequently the bond was settled in full on February 6, 2018 following completion of the acquisition of Alterra.
- A $44,010 (US$35,124) holding company bond owed by Magma Sweden. The holding company bond was secured by shares in HS Orka, had an interest rate of 8.5% per annum and a maturity date of October 23, 2021. The bond was repaid in full during the first quarter. (See note 16)
- A $17,300 short-term revolving credit facility. The facility had a borrowing amount of $20,000 with funds made available on a revolving basis at an interest rate of 8% per annum compounded and payable monthly. The amount borrowed was repaid in full during the first quarter and the facility expired on March 31, 2018. (See note 16)

| | Interest rate 2018 | Maturity | June 30, 2018 |
|---|---|---|---|
| **Alterra** | | | |
| Holding company loan facility | 7.49%-8.07% | 2023 | 87,226 |
| Holding company loan facility (US 20,734) | 8.11% | 2023 | 27,302 |
| HS Orka loans (Euro 55,061) | 3.60% | 2022 | 84,633 |
| HS Orka loans (Icelandic Krona 215,243) | 5.60% | 2031 | 2,680 |

**Subordinated unsecured term loan**

Concurrently to the closing of the acquisition of Alterra, Innergex closed a $150,000 subordinated unsecured 5-year term loan at a 5.13% interest rate.

### c. Boulder Creek and Upper Lillooet River

The construction loan was converted into a term loan on June 29, 2018.

The loan comprises three facilities or tranches:

- A $191,643 construction loan was converted into a 25-year term loan amortized over a 22-year period. The term loan will be repayable in semi-annual installments starting in 2021 and maturing in 2043. The term loan carries a fixed interest rate of 4.22%.
- A $250,000 construction loan was converted into a 38-year term loan amortized over a 13-year period. The term loan will be repayable in semi-annual installments starting in 2043 and maturing in 2056. The term loan carries a fixed interest rate of 4.46%.
- A $50,000 construction loan was converted into a 38-year term loan. The term loan carries a fixed interest rate of 4.46%. The principal will be repayable at maturity in 2056.

This debt is secured by the assets of Boulder Creek Power L.P. and Upper Lillooet River Power L.P.

## 12. CONVERTIBLE DEBENTURES

On June 12, 2018, the Corporation issued an aggregate principal amount of $150,000 of 4.75% convertible debentures at a price of a thousand dollars per convertible debenture, bearing interest at a rate of 4.75% per annum, payable semi-annually on June 30 and December 31 each year, commencing on December 31, 2018. The convertible debentures will be convertible at the holder's option into common shares of the Corporation at a conversion price of $20.00 per share, representing a conversion rate of 50 common shares per each thousand dollars of principal amount of convertible debentures. The convertible debentures will mature on June 30, 2025 and will not be redeemable before June 30, 2021, except in certain limited circumstances. On or after June 30, 2021, and before June 30, 2023, Innergex may redeem the Debentures at par plus accrued and unpaid interest, in certain circumstances. On or after August 30, 2023, 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 4.75% convertible debentures | 150,000 |
| Transaction costs | (6,900) |
| Net proceeds | 143,100 |
| Amount classified as equity | (2,865) |
| Liability component of convertible debentures at the time of issuance (effective interest rate of 6.08%) | 140,235 |
| Accretion of convertible debentures | 69 |
| **Liability component of convertible debentures** | 140,304 |

The liability portion is being accreted such that the liability at maturity will equal the face value less prior conversions if any.

## 13. SHAREHOLDERS' CAPITAL

### a) Buyback of common shares

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

On August 15, 2017, Innergex announced that it has received approval from the Toronto Stock Exchange (TSX) to proceed with a normal course issuer bid on its common shares (the Bid). Under the Bid, the Corporation may purchase for cancellation up to 2,000,000 of its common shares, representing approximately 1.84% of the 108,640,790 issued and outstanding common shares of the Corporation as at August 14, 2017. The Bid commenced on August 17, 2017 and will terminate on August 16, 2018. As at December 31, 2017, 56,082 common shares have been purchased and cancelled at an average price of $13.85. During the six months period ended June 30, 2018, an additional 697,212 common shares have been purchased and cancelled at an average price of $13.60.

## b) Issuance of common shares

As part of the Alterra acquisition, the Corporation issued 24,327,225 common shares at a price of $13.59 for a value of $330,607. (see note 3 a)

## c) Contributed surplus from reduction of capital account on common shares

A special resolution to approve the reduction of the legal stated capital account maintained in respect of the common shares of the Corporation, without any payment or distribution to the shareholders was adopted on May 15, 2018. This resulted in a decrease of the shareholders' capital account of $337,785 and an equivalent increase of the contributed surplus from reduction of capital on common shares account.

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

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

| | Six months ended June 30 | |
|---|---|---|
| | 2018 | 2017 |
| Accounts receivable and income tax receivable | 26,462 | 3,937 |
| Prepaid and others | (555) | (923) |
| Accounts payable and other payables and income tax payable | (15,455) | (11,591) |
| | 10,452 | (8,577) |

### b. Additional information

| | Six months ended June 30 | |
|---|---|---|
| | 2018 | 2017 |
| Interest paid (including $220 capitalized interest ($5,812 in 2017)) | 74,485 | 63,484 |
| *Non-cash transactions* | | |
| in unpaid property, plant and equipment | (1,872) | (32,484) |
| in shares vested in PSP plan | 948 | — |
| in unpaid transactions costs of convertible debentures | 490 | — |
| variation in discounted rates in asset retirement obligations | (63) | — |
| in common shares issued through dividend reinvestment plan | (4,423) | (3,693) |
| in common shares issued upon the acquisition of Alterra | (330,607) | — |
| in investment from non-controlling interests in subsidiaries | 697 | — |
| loan to partners in exchange of non-controlling interests in subsidiaries | — | (2) |

### c. Changes in liabilities arising from financing activities

| | Six months ended June 30 | |
|---|---|---|
| | 2018 | 2017 |
| | | (restated) |
| Long-term debt at beginning of the period | 3,149,354 | 2,598,096 |
| Increase of long-term debt | 542,118 | 300,866 |
| Repayment of long-term debt | (437,021) | (163,203) |
| Payment of deferred financing costs | (2,687) | (613) |
| Business acquisitions (Note 3) | 313,366 | 311,012 |
| Other changes | 7,844 | 5,308 |
| Net foreign exchange differences | 16,207 | 9,832 |
| Long-term debt at end of the period | 3,589,181 | 3,061,298 |

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

# 15. SUBSIDIARIES

**a) HS Orka hf**

As part of the acquisition of Alterra, the Corporation owns a 53.9% ownership interest in HS Orka hf which owns two operating geothermal power plants in Iceland; Svartsengi and Reykjanes.

The summarized financial information below represents amounts before intragroup eliminations.

| As at | June 30, 2018 |
|---|---|
| **Summary Statement of Financial Position** | |
| Current assets | 30,124 |
| Non-current assets | 847,826 |
| | 877,950 |
| | |
| Current liabilities | 31,835 |
| Non-current liabilities | 203,353 |
| Equity attributable to owners of the parent | 346,449 |
| Non-controlling interests | 296,313 |
| | 877,950 |

| | Three months ended June 30, 2018 | Period of 145 days ended June 30, 2018 |
|---|---|---|
| **Summary Statement of Earnings and Comprehensive Income** | | |
| Revenues | 25,578 | 41,995 |
| Expenses [1] | 19,518 | 38,773 |
| Net earnings | 6,060 | 3,222 |
| Other comprehensive (loss) income | (35,016) | 1,789 |
| Total comprehensive (loss) income | (28,956) | 5,011 |
| | | |
| Net earnings attributable to: | | |
| Owners of the parent | 3,266 | 1,736 |
| Non-controlling interests | 2,794 | 1,486 |
| | 6,060 | 3,222 |
| | | |
| Total comprehensive (loss) income attributable to: | | |
| Owners of the parent | (15,607) | 2,701 |
| Non-controlling interests | (13,349) | 2,310 |
| | (28,956) | 5,011 |

1. Expenses also include non-cash expenses such as depreciation and amortization totalling $5,809 and unrealized net gain on financial instruments related to embedded derivatives totalling $4,738 for the three-month period ended June 30, 2018. Expenses also include non-cash expenses such as depreciation and amortization totalling $9,079 and unrealized net loss on financial instruments related to embedded derivatives totalling $5,120 for the 145-day period ended June 30, 2018.

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

**b) Creek Power Inc**

On May 15, 2018, Innergex announced that it has acquired the 33.3% interest of Ledcor Power Ltd in Creek Power Inc., a company that indirectly owns the Fitzsimmons Creek, Boulder Creek and Upper Lillooet River hydro facilities located in British Columbia as well as a portfolio of prospective projects for a total consideration of $1,700. Innergex already owned the remaining 67.7% interest in Creek Power Inc. Innergex also owned all the preferred equity and received virtually all of the cash flows generated by the 3 facilities.

The $32,108 previously recorded in non–controlling interest was eliminated as the Corporation now owns 100% of Creek Power Inc. Since the change in ownership did not result in a change of control, the difference between the adjustment to non–controlling interest and the consideration paid was recorded directly in deficit ($33,808).

# 16. RELATED PARTY TRANSACTIONS

Related party transactions conducted in the normal course of operations are measured at fair value which is the amount established and agreed to by the related parties, unless specific requirements within IFRS require different treatment.

As part of the Alterra acquisition, the following debts were assumed: (i) in 2011, Ross J. Beaty, chairman of the Board of directors and a large shareholder of Alterra, entered into a revolving credit facility with Alterra (the “Credit Facility”). The Credit Facility had a borrowing capacity amount of $20,000 and made funds available to Alterra on a revolving basis at an interest rate of 8% per annum, compounded and payable monthly. In addition, a standby fee in the amount of 0.75% of the Credit Facility, and a drawdown fee in the amount of 1.5% of amounts advanced, were payable in cash. The Credit Facility matured on March 31, 2018. Alterra had borrowed $17,300 under the Credit Facility; and (ii) in October 2016, Ross J. Beaty loaned through a five-year term bond US$35,700 to Alterra’s subsidiary Magma Energy Sweden A.B (the “Bond”). The Bond paid interest at 8.5% per annum with an upfront fee of 2% of the principal which was paid at closing of the financing. The Bond was collateralized by 15% of the outstanding shares in HS Orka. In order to optimize its treasury management, the Corporation repaid both the Credit Facility and the Bond in the first quarter. (See note 11)

# 17. COMMITMENTS AND CONTINGENCIES

## a. Power Purchase Agreements

**British Columbia facilities**

On April 16, 2018, Innergex announced the renewal of the electricity purchase agreement for the Brown Lake hydro facility. The renewed agreement is for a 40-year term and is effective as of April 1, 2018. The agreement is subject to approval by the British Columbia Utilities Commission.

On April 16, 2018, Innergex and Sekw'el'was Cayoose Creek Band announced the renewal of the electricity purchase agreement for the Walden North hydro facility. The renewed agreement is for a 40-year term and is effective as of April 1, 2018. The agreement is subject to approval by the British Columbia Utilities Commission.

## b. Petition filed for permission to appeal on water rights

On April 3, 2018, Harrison Hydro Project Inc., Fire Creek Project Limited Partnership, Lamont Creek Project Limited Partnership, Stokke Creek Project Limited Partnership, Tipella Creek Project Limited Partnership and Upper Stave Project Limited Partnership filed for leave to appeal to the Supreme Court of Canada the decision of the Environmental Review Board regarding the water rental rates to be charged under the Water Act. On August 2, 2018, the leave to appeal was denied. This outcome could affect the expenses of these entities on an annual basis going forward; the expected aggregate annual increase for water rights rentals could be approximately $1,600. The Corporation is looking into ways to reorganize internally the ownership of the projects to minimize or even eliminate this increase. The amount for such an increase in water rights rentals has already been recorded in the 2013, 2014, 2015, 2016, 2017 and 2018 results of the Corporation, which owns a 50.0024% indirect interest in the facilities.

In addition, on March 23, 2017, the Comptroller of the Water Rights issued adjusted rental statements to the Appelants for years 2011 and 2012 for an amount of $3,300 in aggregate. The amount claimed was paid under protest and the Appellants have filed a Notice of Appeal of that decision to the Environmental Appeal Board, which was stayed until the appeal mentioned in the preceding paragraph is resolved. This appeal will now go forward on different grounds not related to the previous appeal.

### c. First Court rules in favor of HS Orka

In February 2016, HS Orka issued a legal letter to HS Veitur hf demanding full payment of the long-term receivable in relation to the shared pension liability. This was following receipt of a termination notice by HS Veitur of an agreement regarding payments of the pension liability, sent on December 31, 2015. The two companies had reached an agreement in 2011 on HS Veitur's share and, based on that agreement, HS Orka considers its claim to be fully valid. Negotiations have not settled the matter. Court proceedings took place in March 2018 and on April 17, 2018, the First Court of Iceland ruled in favor of HS Orka. HS Veitur filed an appeal to the Court of Appeal, which is a court of second instance. The Corporation anticipates a result by April 2019. A claim for $9,900 was filed and is included in accounts receivable on the balance sheet.

# 18. SEGMENT INFORMATION

## Geographic segments

As at June 30, 2018, excluding its investments in joint ventures and associates, the Corporation had interests in 29 hydroelectric facilities, six wind farms and one solar farm in Canada, 15 wind farms in France, two geothermal facilities in Iceland and one hydroelectric facility in the United States. The Corporation operates in four principal geographical areas, which are detailed below:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Revenues** | | | | |
| Canada | 106,544 | 99,865 | 174,975 | 164,354 |
| France | 15,860 | 8,845 | 48,079 | 18,325 |
| Iceland | 25,578 | — | 41,995 | — |
| United States | 1,559 | 820 | 2,373 | 1,377 |
| | 149,541 | 109,530 | 267,422 | 184,056 |

| As at | June 30, 2018 | December 31, 2017 |
|---|---|---|
| **Non-current assets, excluding derivatives financial instruments and deferred tax assets** | | |
| Canada | 3,092,679 | 2,977,859 |
| France | 966,484 | 973,740 |
| Iceland | 847,827 | — |
| United States | 250,722 | 7,052 |
| | 5,157,712 | 3,958,651 |

## Operating segments

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

Through its hydroelectric, wind power, geothermal power and solar generation segments, the Corporation sells electricity produced by its hydroelectric, wind farm, geothermal facilities and solar facilities to publicly owned utilities or other creditworthy counterparties mainly. Through its site development segment, it analyzes potential sites and develops hydroelectric, wind, geothermal 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 (revenues) expenses, share of (earnings) loss of joint ventures and associates and unrealized net (gain) loss on 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, geothermal power generation or solar power generation segments are accounted for at cost.

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

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

| Three months ended June 30, 2018<br>Operating segments | Hydroelectric | Wind | Geothermal | Solar | Site development | Total |
|---|---|---|---|---|---|---|
| Revenues | 76,014 | 42,113 | 25,578 | 5,836 | — | 149,541 |
| Expenses: | | | | | | |
| Operating | 14,103 | 7,503 | 15,704 | 140 | — | 37,450 |
| General and administrative | 3,299 | 2,677 | 2,883 | 40 | — | 8,899 |
| Prospective projects | — | — | — | — | 4,065 | 4,065 |
| Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net expenses, share of loss of joint ventures and associates and unrealized net gain on financial instruments | 58,612 | 31,933 | 6,991 | 5,656 | (4,065) | 99,127 |
| Finance costs | | | | | | 49,438 |
| Other net expenses | | | | | | 1,427 |
| Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and associates and unrealized net gain on financial instruments | | | | | | 48,262 |
| Depreciation | | | | | | 30,695 |
| Amortization | | | | | | 11,071 |
| Share of loss of joint ventures and associates | | | | | | 1,258 |
| Unrealized net gain on financial instruments | | | | | | (12,816) |
| Earnings before income taxes | | | | | | 18,054 |

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

| Three months ended June 30, 2017<br>Operating segments | Hydroelectric | Wind | Solar | Site development | Total |
|---|---|---|---|---|---|
| | | | | | Restated Note 2.2 |
| Revenues | 74,177 | 29,777 | 5,190 | 386 | 109,530 |
| Expenses: | | | | | |
| Operating | 10,742 | 6,117 | 170 | 186 | 17,215 |
| General and administrative | 2,744 | 1,939 | 33 | 41 | 4,757 |
| Prospective projects | — | — | — | 1,638 | 1,638 |
| Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net revenues, share of earnings of joint ventures and associates and unrealized net loss on financial instruments | 60,691 | 21,721 | 4,987 | (1,479) | 85,920 |
| Finance costs | | | | | 39,287 |
| Other net revenues | | | | | (413) |
| Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and associates and unrealized net loss on financial instruments | | | | | 47,046 |
| Depreciation | | | | | 23,707 |
| Amortization | | | | | 8,257 |
| Share of earnings of joint ventures and associates | | | | | (1,821) |
| Unrealized net loss on financial instruments | | | | | 470 |
| Earnings before income taxes | | | | | 16,433 |

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

| Six months ended June 30, 2018<br>Operating segments | Hydroelectric | Wind | Geothermal | Solar | Site development | Total |
|---|---|---|---|---|---|---|
| Revenues | 110,677 | 106,163 | 41,995 | 8,587 | — | 267,422 |
| Expenses: | | | | | | |
| Operating | 23,958 | 14,932 | 24,223 | 309 | — | 63,422 |
| General and administrative | 5,956 | 5,298 | 5,228 | 75 | — | 16,557 |
| Prospective projects | — | — | — | — | 8,973 | 8,973 |
| Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net expenses, share of earnings of joint ventures and associates and unrealized net gain on financial instruments | 80,763 | 85,933 | 12,544 | 8,203 | (8,973) | 178,470 |
| Finance costs | | | | | | 95,109 |
| Other net expenses | | | | | | 3,615 |
| Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and associates and unrealized net gain on financial instruments | | | | | | 79,746 |
| Depreciation | | | | | | 59,233 |
| Amortization | | | | | | 21,705 |
| Share of earnings of joint ventures and associates | | | | | | (1,838) |
| Unrealized net gain on financial instruments | | | | | | (673) |
| Earnings before income taxes | | | | | | 1,319 |

| As at June 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|
| Goodwill | 15,180 | 40,873 | 42,762 | 303 | 5 | 99,123 |
| Total assets | 2,608,434 | 1,880,377 | 902,954 | 108,062 | 77,581 | 5,577,408 |
| Total liabilities | 2,255,092 | 1,618,594 | 452,996 | 113,727 | 91,728 | 4,532,137 |
| Acquisition of property, plant and equipment during the period | 1,192 | 251 | 10,137 | 132 | 5,396 | 17,108 |

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

| Six months ended June 30, 2017 | | | | | |
|---|---|---|---|---|---|
| Operating segments | Hydroelectric | Wind | Solar | Site development | Total |
| | | | | | Restated Note 2.2 |
| Revenues | 108,535 | 66,669 | 8,466 | 386 | 184,056 |
| Expenses: | | | | | |
| Operating | 21,481 | 11,292 | 345 | 186 | 33,304 |
| General and administrative | 5,510 | 3,360 | 88 | 377 | 9,335 |
| Prospective projects | — | — | — | 4,556 | 4,556 |
| Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net revenues, share of earnings of joint ventures and associates and unrealized net gain on financial instruments | 81,544 | 52,017 | 8,033 | (4,733) | 136,861 |
| Finance costs | | | | | 68,805 |
| Other net revenues | | | | | (772) |
| Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and associates and unrealized net gain on financial instruments | | | | | 68,828 |
| Depreciation | | | | | 45,524 |
| Amortization | | | | | 16,022 |
| Share of earnings of joint ventures and associates | | | | | (2,537) |
| Unrealized net gain on financial instruments | | | | | (4,605) |
| Earnings before income taxes | | | | | 14,424 |

| As at December 31, 2017 (Restated Note 2.2) | | | | | |
|---|---|---|---|---|---|
| Goodwill | 8,269 | 30,311 | — | — | 38,580 |
| Total assets | 2,425,646 | 1,651,537 | 101,449 | 11,824 | 4,190,456 |
| Total liabilities | 2,093,158 | 1,515,468 | 99,902 | 25,803 | 3,734,331 |
| Acquisition of property, plant and equipment during the year | 18,804 | 352,968 | 12 | 185,884 | 557,668 |

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

## 19. 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 ($) |
|---|---|---|---|---|---|
| 08/13/2018 | 09/28/2018 | 10/15/2018 | 0.1700 | 0.2255 | 0.359375 |

### b. Acquisition of a solar project in Texas, United States

On July 2, 2018, the Corporation announced the acquisition of a 250 $MW_{AC}$/315 $MW_{DC}$ photovoltaic solar project located in Winkler County, Texas. Full notice to proceed with construction was also issued on July 2, 2018 and commercial operation should be reached in the third quarter of 2019. The project is also eligible to receive a federal Investment Tax Credit (ITC) equal to approximately 30% of the project's capital costs. The ITC will be mostly allocated to the Tax Equity Investor.

### c. Partnership and acquisition in Chile

On July 3, 2018, Innergex completed the previously announced joint venture partnership with Energia Llaima for a 50% ownership in the company which owns the Energia Coyanco hydro facility (12 MW) and the Pampa Elvira solar facility (34 MW). Innergex invested an initial amount of US$10,000 ($12,775) through available funds under its corporate revolving credit facilities and has agreed to invest an additional US$100,000 ($140,500) over a 12-month period, of which US$90,000 was invested for the acquisition of the Duqueco hydro project.

On July 5, 2018, Innergex and Energia Llaima completed the previously announced acquisition of the 140 MW Duqueco hydro project in Chile. The Duqueco hydro project includes two hydro facilities commissioned in 2001, Peuchen (85 MW) and Mampil (55 MW). The purchase price, net of an estimated US$10,000 ($12,775) in cash, is approximately US$210,000 ($268,275), subject to certain adjustments. A US$130,000 ($166,000) 15-year term financing has been arranged and underwritten. The 15-year term is comprised of a bullet loan of US$70,000 ($85,900) and carries a variable interest rate to which the Corporation intends to reduce its exposure by entering into long-term hedging instruments. The proceeds of the loan was used to pay a portion of the purchase price. Energia Llaima's net share of the remaining purchase price amounted to about US$80,000 ($102,200). In addition, Energia Llaima made a deposit to secure financing of US $10,000 ($12,775).

### d. Acquisition of the partner's interest in the five wind farms

On August 2, 2018, the Corporation announced that it has signed a final agreement to acquire TransCanada's 62% interest in five wind farms in the Quebec's Gaspé peninsula known as Baie-des-Sables, Carleton, Gros-Morne, L'Anse-à-Valleau and Montagne Sèche (the "Cartier Wind Farms"), and its 50% interest in the operating entities of the Cartier Wind Farms (the "Cartier Operating Entities"), for total consideration of approximately $630,000. Innergex currently owns the remaining interests in both the Cartier Wind Farms and Cartier Operating Entities.

The Cartier Wind Farms are located in the Gaspésie region of Quebec. With an aggregated gross installed capacity of 590 MW, the expected long-term average annual power generation is approximately 1,780 GWh, enough to power about 80,900 Quebec households. All of the electricity produced by these wind farms is sold to Hydro-Quebec under existing power purchase agreements at fixed prices, a portion of which is adjusted according to inflation indexes, for initial terms of 20 years, ending between 2026 and 2032.

Innergex has obtained commitments from two leading Canadian banks, BMO Capital Markets and TD Securities, to backstop its existing credit facilities and to provide two short-term credit facilities to cover the purchase price and transaction costs in their entirety. The financing has been structured to allow Innergex to maintain a solid investment-grade rating.

A first one-year term credit facility of $400,000 non-recourse to Innergex will allow the Corporation to put in place a non-recourse long-term financing at the project level based on the useful life of the assets. The 62% interest in Cartier Wind Farms being acquired is currently debt-free.

A second one-year term credit facility of $240,000 will be reimbursed through the strategic divestment of a minority interest in the Cartier Wind Farms and of other assets that could further benefit the Corporation. Innergex intends to find a partner to acquire, in a structured transaction, a stake in Cartier Wind Farms which will increase the shareholders' return while optimizing the investment structure. Innergex will keep a 100% ownership interest in Cartier Operating Entities.

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

Innergex also concluded that selected asset divestments to supply equity for the transaction are optimal for its long-term performance and outlook. Innergex believes there are a number of attractive, actionable opportunities to monetize selected assets or portions of existing assets in a manner that supports Innergex's long-term strategy. The Corporation will diligently investigate these various options to derive maximum value from its portfolio of assets. Although the timing of such sales is subject to prevailing market conditions they are expected to be completed within a year.

# SHAREHOLDER INFORMATION

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***Common Shares - TSX: INE***

***Series A Preferred Shares - TSX: INE.PR.A***

***Series C Preferred Shares - TSX: INE.PR.C***

***Convertible Debentures - TSX: INE.DB.A***
***TSX: INE.DB.B***

## Credit Rating by Standard & Poor's

| | |
|---|---|
| Innergex Renewable Energy Inc. | BBB- |
| Series A Preferred Shares | P-3 |
| Series C Preferred Shares | P-3 |

***Dividend Reinvestment Plan (DRIP)***

Innergex Renewable Energy Inc. offers a Dividend Reinvestment Plan (DRIP) for its shareholders of common shares. 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 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.

## Transfer Agent and Registrar

For information concerning share certificates, dividend payments, a change of address, or electronic delivery of shareholder documents, please contact:

***Computershare Investor Service Inc.***
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