

The logo for INNERGEX, featuring the word "INNERGEX" in a bold, blue, sans-serif font. The letters "I", "N", "N", "E", "R", "G", "E", and "X" are all in blue, while the letter "E" in the middle is white with a blue outline.

Renewable Energy.  
Sustainable Development.

# QUARTERLY REPORT 2013

FOR THE PERIOD ENDED SEPTEMBER 30, 2013

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

A large, stylized version of the INNERGEX logo, rendered in white outlines against the green background. The letters are bold and blocky, with the "E" in the middle being white with a blue outline, matching the logo in the top right.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is a discussion of the operating results, cash flows and financial position of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the three- and nine-month periods ended September 30, 2013, and reflects all material events up to November 5, 2013, the date on which this MD&A was approved by the Corporation's Board of Directors.

The MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes and with the Corporation's *Financial Review at December 31, 2012*. Additional information relating to Innergex, including its Annual Information Form, can be found on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) or on the Corporation's website at [www.innergex.com](http://www.innergex.com).

The unaudited condensed consolidated financial statements attached to this MD&A and the accompanying notes for the three- and nine-month periods ended September 30, 2013, along with the 2012 comparative figures, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Some amounts included in this MD&A have been rounded to make reading easier, which may affect some calculations.

## Q3 2013 HIGHLIGHTS

- Production was 106% of LTA due to better-than-average resource availability
- Operating revenues rose 23% to \$58.0 million compared with the same period last year
- Adjusted EBITDA rose 27% to \$46.7 million compared with the same period last year
- Cash flows from operations generated during the quarter rose to \$38.8 million, compared with \$16.8 million last year
- The acquisition of the 40.6 MW Magpie hydro facility closed on July 25
- Project financing of \$61.7M for the Viger-Denonville wind project closed on August 7
- Substantial capital improvements were in progress at the Miller Creek facility
- Construction began at three hydro Development Projects in BC in early October
- The Kwoiek Creek hydroelectric facility began producing electricity at the end of October

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

(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

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

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

In accordance with *Regulation 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings*, the President and Chief Executive Officer and the Chief Financial Officer and Senior Vice President of the Corporation have certified that there were no material weaknesses relating to the DC&P and ICFR for the three-month period ended September 30, 2013. During the three-month period ended September 30, 2013, there was no change to the ICFR that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR.

## FORWARD-LOOKING INFORMATION

In order to inform shareholders of the Corporation as well as potential investors in the Corporation's future prospects, this MD&A contains forward-looking information within the meaning of applicable securities laws ("Forward-Looking Information"). All information and statements other than statements of historical facts contained in this MD&A are Forward-Looking Information. Forward-Looking Information can generally be identified by the use of words such as "about", "approximately", "may", "will", "could", "believes", "expects", "intends", "should", "plans", "predict", "potential", "project", "anticipates", "estimates", "budget", "scheduled" or "forecasts", or similar words or the negative thereof or other comparable terminology that state that certain events will or will not occur.

The Forward-Looking Information includes forward-looking financial information or financial outlook, within the meaning of securities laws, such as expected production, operating revenues, total project costs, adjusted EBITDA or results to inform investors and shareholders of the potential financial impact of development projects if and when they reach commercial operation, recently announced acquisitions or expected results. Such information may not be appropriate for other purposes.

Forward-Looking Information represents, as of the date of this MD&A, the estimates, forecasts, projections, expectations or opinions of the Corporation relating to future events or results. Forward-Looking Information involves known and unknown risks, uncertainties and other important factors which may cause the actual results or performance to be materially different from those expressed, implied or presented by the Forward-Looking Information. The material risks and uncertainties that may cause the actual results and developments to be materially different from the current expressed expectations are referred to in the Corporation's Annual Information Form under the "Risk Factors" heading and include the ability of the Corporation to execute its strategy; the ability to access sufficient capital resources; liquidity risks related to derivative financial instruments; changes in hydrology, wind regime and solar irradiation; delays and cost overruns in the construction and design of projects; health, safety and environmental risks; uncertainty relating to development of new facilities; obtainment of permits; variability of project performance and related penalties; equipment failure; interest rate fluctuation and refinancing risk; financial leverage and restrictive covenants governing current and future indebtedness; declaration of dividends at the discretion of the board; securing new power purchase agreements; the ability to retain senior management and key employees; litigation; performance of major counterparties; relationship with stakeholders; equipment supply; changes to regulatory and political factors; the ability to secure appropriate land; reliance on power purchase agreements; reliance upon transmission systems; water and land rental expense; assessment of water, wind and sun resources and associated electricity production; dam safety; natural disasters and force majeure; foreign exchange fluctuations; sufficiency of insurance coverage; a credit rating that may not reflect actual performance of the Corporation; potential undisclosed liabilities associated with acquisitions; integration of the facilities and projects acquired and to be acquired; failure to realize the anticipated benefits of acquisitions; fluctuation of the revenues from the Miller Creek facility based on the electricity spot price; the inability to execute a definitive agreement and close the acquisition of the Hydromega hydroelectric facilities and development project; shared transmission and interconnection infrastructure; and the introduction of solar photovoltaic power facility operation. The Forward-Looking Information is based on certain key

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

expectations and assumptions made by the Corporation, including expectations and assumptions concerning availability of capital resources, absence of exercise of any termination right, economic and financial conditions, the success obtained in developing new facilities and the performance of operating facilities. Although the Corporation believes that the expectations and assumptions on which such Forward-Looking Information is based are reasonable, undue reliance should not be placed on the Forward-Looking Information since no assurance can be given that they will prove to be correct. The reader of this MD&A is cautioned not to rely unduly on this Forward-Looking Information. All Forward-Looking Information, expressed verbally or in writing by the Corporation or by a person acting on its behalf, is expressly qualified by this cautionary statement. The Forward-Looking Information contained herein is made as at the date of this MD&A and the Corporation does not undertake any obligation to update or revise any Forward-Looking Information, whether as a result of events or circumstances occurring after the date hereof, unless so required by legislation.

## ADDITIONAL INFORMATION AND UPDATES

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## OVERVIEW

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

### Portfolio of Assets

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

- 29 facilities that are in commercial operation (the "Operating Facilities"). Commissioned between November 1994 and November 2012, the facilities have a weighted average age of approximately 6.1 years. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 19.1 years (based on grossed long-term average production);
- Eight projects scheduled to begin commercial operation between 2013 and 2017 (the "Development Projects"). Construction is ongoing at six of the projects; and
- Numerous projects that have secured certain land rights, for which an investigative permit application has been filed or for which a proposal has either been or could be submitted under a Request for Proposal ("RFP") or a Standing Offer Program ("SOP") (collectively the "Prospective Projects"). These projects are at various stages of development.

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



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	Operating Facilities	Development Projects	Prospective Projects
<b>Hydro</b>			
Gross capacity:	449.1 MW	237.9 MW	1,000.0 MW
Net capacity <sup>1</sup> :	359.9 MW	177.4 MW	950.0 MW
<b>Wind</b>			
Gross capacity:	589.5 MW	174.6 MW	2,085.0 MW
Net capacity <sup>1</sup> :	224.0 MW	87.3 MW	1,910.0 MW
<b>Solar</b>			
Gross capacity:	33.2 MW	-	40.0 MW
Net capacity <sup>1</sup> :	33.2 MW	-	40.0 MW
<b>Total</b>			
Gross capacity:	1,071.8 MW	412.5 MW	3,125.0 MW
Net capacity <sup>1</sup> :	617.1 MW	264.7 MW	2,900.0 MW

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## BUSINESS STRATEGY

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

## Annual Dividend Policy

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

## Key Performance Indicators

The Corporation measures its performance using key performance indicators that include or could include power generated in megawatt-hours ("MWh") and gigawatt-hours ("GWh"), operating revenues less operating expenses, general and administrative expenses and prospective project expenses ("Adjusted EBITDA") and Adjusted EBITDA divided by operating revenues ("Adjusted EBITDA Margin"). These indicators are not recognized measures under IFRS and therefore may not be comparable with those presented by other issuers. Investors are cautioned that these non-IFRS measures should not be construed as an alternative to net earnings as determined in accordance with IFRS. The Corporation believes that these indicators are important since they provide management and the reader with additional information about its production and cash generation capabilities and facilitate the comparison of results over different periods.

## Diversification of Sources of Energy

The amount of electricity generated by the Operating Facilities is generally dependent on the availability of water flows, wind regimes and solar irradiation. Lower than expected water flows, wind regimes or solar irradiation in any given year could have an impact on the Corporation's revenues and hence on its profitability. Innergex owns interests in 23 hydroelectric facilities, which draw on 20 watersheds, five wind farms and one solar farm, providing significant diversification in terms of operating revenue sources. Furthermore, given the nature of hydroelectric, wind and solar power generation, seasonal variations are partially offset, as illustrated in the following table and charts:

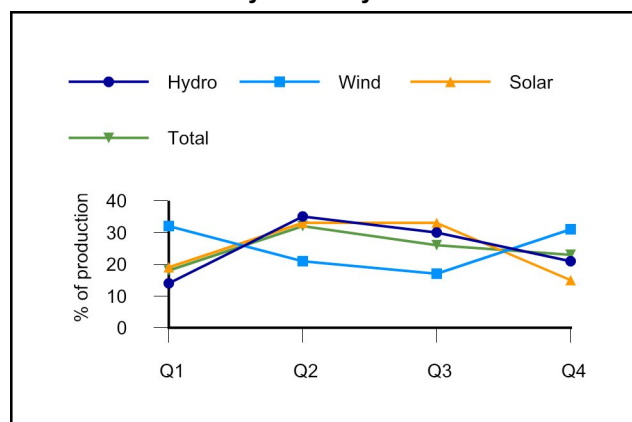
Electricity	LTA <sup>1</sup> (GWh and %) – Consolidated <sup>2</sup>								
	Q1		Q2		Q3		Q4		Total
HYDRO	257.5	14%	665.8	35%	557.8	30%	395.6	21%	1,876.8
WIND	213.6	32%	142.8	21%	112.8	17%	207.3	31%	676.5
SOLAR <sup>3</sup>	7.4	19%	12.6	33%	12.8	33%	5.9	15%	38.7
<b>Total</b>	<b>478.5</b>	<b>18%</b>	<b>821.2</b>	<b>32%</b>	<b>683.4</b>	<b>26%</b>	<b>608.8</b>	<b>23%</b>	<b>2,592.0</b>

1. Annualized long-term average production for 2013 for the facilities in operation at September 30, 2013, including Magpie.

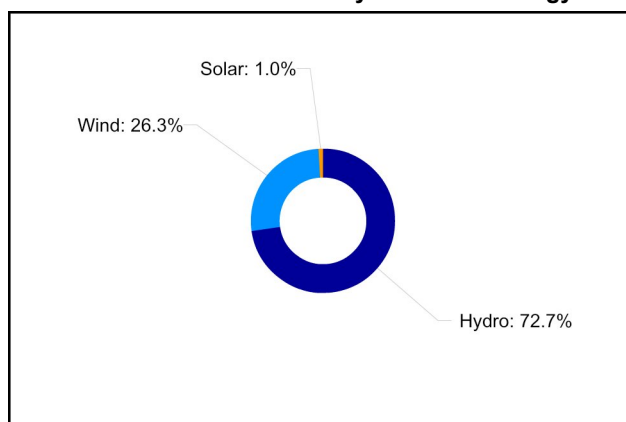
2. LTA is presented in accordance with revenue recognition accounting rules under IFRS and excludes production from facilities that are accounted for using the equity method, which is presented in the Investments in Joint Ventures" section.

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

**Seasonality of LTA by Quarter**



**Breakdown of LTA by Source of Energy**





# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## THIRD QUARTER UPDATE

During the third quarter ended September 30, 2013, electricity production was 106% of the long-term average, due mainly to better-than-average resource availability at most of the Corporation's facilities. Revenues increased 23% to \$58.0 million and Adjusted EBITDA increased 27% to \$46.7 million, compared with the third quarter of 2012, due mainly to better-than-average production as well as the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012, the addition of capacity at the Gros-Morne wind farm in November 2012 and the acquisition of the Magpie hydroelectric facility in July 2013. For these same reasons and after excluding realized and unrealized net gains or losses on derivative financial instruments, net income for the quarter would have been \$9.4 million, compared with \$2.7 million the previous year.

Highlights	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Power generated (MWh)	706,496	559,383	1,885,207	1,573,379
LTA production (MWh)	665,285	542,408	1,893,775	1,630,257
Operating revenues	58,039	47,109	156,894	129,538
Adjusted EBITDA	46,688	36,652	123,351	99,545
Adjusted EBITDA margin	80.4%	77.8%	78.6%	76.8%
Net earnings (loss)	11,147	(728)	42,008	(4,788)
Cash flows from operating activities	38,766	16,755	86,752	48,772
Dividends declared on preferred shares	1,782	1,063	5,610	3,188
Dividends declared on common shares	13,777	13,540	41,097	37,112
Dividends declared on common shares (\$ per share)	0.1450	0.1450	0.4350	0.4350

For the three-month period ended September 30, 2013, the increases in the power generated, in operating revenues and in Adjusted EBITDA, which is detailed in the financial results table, are attributable to better-than-average hydrology at most of the Corporation's hydroelectric facilities, better-than-average wind regimes at all of its wind farms and better-than-average solar irradiation at its solar farm. These increases are also attributable to contributions from the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012, the addition of capacity at the Gros-Morne wind farm in November 2012 and the acquisition of the Magpie hydroelectric facility in July 2013.

The Corporation recorded net earnings of \$11.1 million for the three-month period ended September 30, 2013, compared with a net loss of \$0.7 million for the same period in 2012, due mainly to the reasons mentioned above and to a realized net loss on the settlement of the Kwoiek Creek bond forward contracts during the third quarter of 2012, partly offset by a lower unrealized net gain on derivative financial instruments during the third quarter of 2013, compared with the same period last year.

For the nine-month period ended September 30, 2013, the Corporation recorded net earnings of \$42.0 million, compared with a net loss of \$4.8 million in the corresponding period last year, due mainly to the reasons mentioned above as well as to a higher unrealized net gain on derivative financial instruments and a lower realized net loss on the settlement of bond forward contracts than in the same period last year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Impact on net earnings (loss) of the unrealized net gains and realized net losses on derivative financial instruments:	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Net earnings (loss)	11,147	(728)	42,008	(4,788)
Subtract: Unrealized net gain on derivative financial instruments	(2,404)	(9,521)	(33,560)	(2,515)
Add: Realized net loss on derivative financial instruments	—	14,127	3,259	14,127
Add (Subtract): Deferred provision for (recovery of) income taxes related to an unrealized net gain and a realized net loss on derivative financial instruments	625	(1,198)	7,878	(3,019)
	9,368	2,680	19,585	3,805

Excluding the unrealized net gains and realized net loss on derivative financial instruments and the related income taxes, the net earnings for the three-month period ended September 30, 2013, would have been \$9.4 million, compared with net earnings of \$2.7 million in 2012.

Excluding the realized net losses and the unrealized net gains on derivative financial instruments and the related income taxes, the net earnings for the nine-month period ended September 30, 2013, would have been \$19.6 million, compared with net earnings of \$3.8 million in 2012.

## Closing of the Magpie Acquisition

On July 25, 2013, the Corporation completed the previously announced acquisition of an interest in the Magpie facility located in Quebec from the Hydromega Group of Companies. Magpie is a 40.6 MW run-of-river hydroelectric facility located on Crown lands in the Minganie Regional County Municipality in Northeastern Quebec. This facility began commercial operations in 2007 and all of the electricity it produces is sold to Hydro-Québec under a 25-year fixed-price power purchase agreement, which provides for an annual 1% increase in the selling price. Magpie has an average annual production of approximately 185,000 MWh, enough to power almost 11,000 Quebec households each year. Magpie is expected to generate annualized revenues of approximately \$10.6 million in 2013 (including payments received under the ecoENERGY program) and Adjusted EBITDA of approximately \$8.2 million.

The Corporation has acquired 99.999% of the common units of the facility. However, the Minganie Regional County Municipality holds 30% of the voting units as well as a convertible debenture with a nominal value of \$4.6 million, which carries an annual interest payment of approximately \$465, and a \$1.8 million non-interest bearing debenture repayable over the next five years. The convertible debenture entitles the municipality to a 30% interest in the facility upon conversion of the debenture on January 1, 2025.

The Corporation has paid the final purchase price of \$28.6 million in cash and assumes project-level debt totalling \$65.1 million, which includes \$58.7 million in non-recourse financing with blended monthly payments of approximately \$406 until 2017 and approximately \$379 thereafter until 2031, for a blended fixed interest rate of 4.31%, as well as the two debentures held by the Minganie Regional County Municipality mentioned above. The amounts and interest rate on these debts reflect their adjustment to fair value upon consolidation by the Corporation. For more information on the Magpie debt, please refer to the "Financial Position" section.

## Acquisition of Other Hydromega Assets

Concurrent with the announcement of the Magpie acquisition in July 2012, the Corporation signed an exclusive letter of intent with Hydromega to acquire its ownership interest in several other assets, including a 30.5 MW hydroelectric facility in Quebec, four hydroelectric projects now in operation totaling 22.0 MW in Ontario and a 10.0 MW hydroelectric project under development also in Ontario.

The Corporation continues to advance negotiations with Hydromega to acquire other assets under this letter of intent while at the same time taking into consideration the impact of the recent increase in long-term interest rates and the decline in the Corporation's share price in order to ensure that any such acquisitions are accretive.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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Also concurrent with the announcement of the Magpie acquisition in July 2012, the Corporation had entered into a \$25.0 million deposit agreement with Hydromega, bearing interest at a rate of 7.00% annually, to be applied against the purchase price of any Hydromega asset. This deposit was not used to fund the Magpie acquisition and remains in place to fund the eventual purchase of other Hydromega assets and is refundable to the Corporation if no acquisition is made. The deposit agreement also contains a right of first offer for, and an option to acquire, the 30.5 MW operating facility in Quebec.

## Closing of the Viger-Denonville wind project financing

On August 7, 2013, Parc éolien communautaire Viger-Denonville, s.e.c. ("Viger-Denonville, L.P.") closed a \$61.7 million non-recourse construction and term project financing for the Viger-Denonville wind energy project located in Quebec. The \$61.7 million construction loan will carry a fixed interest rate of 6.00% (through the use of a swap) starting on December 31, 2013. Following the start of the project's commercial operation, it will convert into an 18-year term loan. Viger-Denonville, L.P. has also closed a \$5.5 million short-term loan with a floating interest rate to finance the construction of the substation and collector system, for which it is entitled to be reimbursed by Hydro-Québec in 2014. These loans have been arranged by KfW IPEX-Bank GmbH as agent and lender.

The proceeds of the financing will be used to fund just over 80% of the total project costs. Concurrent with the closing of the financing, Viger-Denonville, L.P. has settled the bond forward contracts used to hedge the interest rate on the debt and therefore protect the expected returns on the project, giving rise to a \$2.2 million realized gain on derivative financial instruments; this is equivalent to a fixed interest rate of approximately 5.50% on the loan.

## Changes to the Dividend Reinvestment Plan (DRIP)

In view of recent market conditions, the Corporation elected to eliminate the 2.5% discount applicable to the purchase price of shares issued to shareholders participating in the DRIP. Therefore, shares purchased under the DRIP will continue to be issued from treasury and the price will be the weighted-average trading price of the common shares on the Toronto Stock Exchange during the five (5) business days immediately preceding the dividend payment date. This change came into effect on August 8, 2013. Any decision by the Corporation to change either the purchase method for the shares or the discount granted on the purchase price of shares issued from treasury will be communicated by press release.

## Procurement of 450 MW in Wind Energy by the Quebec Government

On August 28, 2013, the Quebec government published draft regulation for the procurement of 450 MW in new wind energy, including 300 MW for projects in the Lower Saint-Lawrence and Gaspésie regions and 150 MW for projects anywhere in the province. The proposed regulations also stipulate a maximum price of 9.5¢ per kWh and a majority project ownership by a local entity, including municipalities and First Nations. Projects awarded a power purchase agreement will be eligible to begin commercial operation in either 2017 or 2018. Innergex has several wind projects in Quebec that it intends to submit under this request for proposals. Now that the 45-day consultation period has ended, the Corporation expects the final terms to be announced sometime this fall.

## Capital improvement program at the Miller Creek hydroelectric facility

In mid-July, the Corporation began as planned a capital improvement program of approximately \$7.0 million at the 33.0 MW Miller Creek hydroelectric facility in British Columbia. Work has involved surface preparation and coating of the penstock, which was corroding at an accelerated rate because of iron-oxidizing bacteria that created nodules on the pipe surface, redesigning and reshaping the intake to reduce sand and sediment intrusion and improve hydraulic performance and replacing some turbine components. This capital improvement program was completed on time and on budget and the facility, which was shut down on August 12, will be restarted in early November. The electricity production lost during this period will result in an estimated shortfall in operating revenues and Adjusted EBITDA of approximately \$0.6 million and \$0.5 million respectively for 2013. However, as a result of these improvements the facility's long-term average annual production will increase by approximately 5%, from 97,900 MWh to 102,795 MWh. This capital expenditure program was announced at the time of the acquisition and was initially expected to occur in the fall of 2012. It was later postponed to the fall of 2013 due to the longer-than-expected acquisition closing process, seasonal constraints and contractor availability. Funding for this program has been provided by the proceeds of the \$123.7 million private placement concluded in July 2012 and was considered in establishing the purchase price for the Miller Creek acquisition.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## DEVELOPMENT PROJECTS

The Corporation currently has eight projects (excluding North Creek) that are expected to reach commercial operation between 2013 and 2017.

PROJECTS UNDER CONSTRUCTION	Ownership %	Gross installed capacity (MW)	Expected COD <sup>1</sup>	Gross estimated LTA (GWh)	PPA term (years)	Total project costs		Expected year-one	
						Estimated <sup>2</sup> (\$M)	As at Sept. 30 (\$M)	Revenues <sup>2</sup> (\$M)	Adjusted EBITDA <sup>2</sup> (\$M)
<i>HYDRO (British Columbia)</i>									
Kwoiek Creek	50.0	49.9	Q4 2013	215.0	40	153.2	145.8	18.2	14.8
Northwest Stave River	100.0	17.5	Q4 2013	61.9	40	91.4	75.0	7.4	5.9
Tretheway Creek	100.0	23.3	2015	81.9	40	108.5	17.2	9.0	7.3
Upper Lillooet River	66.7	81.4	2016	334.0	40	317.6	14.9	32.7	27.6
Boulder Creek	66.7	25.3	2015	92.5	40	116.9	4.7	9.1	7.5
<i>WIND (Quebec)</i>									
Viger-Denonville	50.0	24.6	Q4 2013	67.6	20	36.6 <sup>3</sup>	25.2 <sup>3</sup>	5.2 <sup>3</sup>	4.2 <sup>3</sup>

1. Commercial operation date.

2. This information is intended to inform the reader of the projects' potential impact on the Corporation's results. The actual results may vary. Please refer to the "Forward-Looking Information" section for more information.

3. Corresponding to the Corporation's 50% interest in this project.

### Kwoiek Creek

The construction of this hydroelectric facility began in the last quarter of 2011. During the third quarter and up to the date of this MD&A, installation of the intake and penstock and construction of the powerhouse were completed, the interconnection was finalized, the transmission line was energized and the turbines were wet commissioned. Although it has begun producing electricity, official commercial operation is expected to begin in November and will be dependent on water flows sufficient to meet the minimum production requirements stipulated under the PPA with BC Hydro.

### Northwest Stave River

The construction of this hydroelectric facility began in the last quarter of 2011. At the date of this MD&A, installation of the intake and penstock and construction of the powerhouse were completed, the interconnection was finalized and the transmission line was energized. Commissioning activities have begun and will continue throughout the fourth quarter. The construction of this facility is progressing as scheduled and budgeted. Commercial operation is expected to begin during December and will be dependent on water flows.

### Tretheway Creek

The construction of this hydroelectric facility began in October 2013 upon receipt of the leave to commence construction from the provincial government. Both the EPC contractor and turbine supplier have been selected. At the date of this MD&A, clearing activities had begun and construction site mobilization was under way. Construction of this facility is progressing as scheduled and budgeted.

### Upper Lillooet River

The construction of this hydroelectric facility began in October 2013 upon receipt of the leave to commence construction for the transmission line from the provincial government. Both the EPC contractor and turbine supplier have been selected. At the date of this MD&A, clearing activities had begun and construction site mobilization was under way. Discussions are ongoing with BC Hydro to obtain its consent to amend the PPAs to increase the installed capacity of the Upper Lillooet River and Boulder Creek projects and to cancel the North Creek project. Construction of this facility is progressing as scheduled and budgeted.

### Boulder Creek

The construction of this hydroelectric facility began in October 2013 upon receipt of the leave to commence construction for the transmission line from the provincial government. Both the EPC contractor and turbine supplier have been selected. At the date of this MD&A, clearing activities had begun and access secured. As mentioned above, discussions are ongoing with BC

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Hydro to obtain its consent to amend the PPAs to increase the installed capacity of the Upper Lillooet River and Boulder Creek projects and to cancel the North Creek project. Construction of this facility is progressing as scheduled and budgeted.

## Viger-Denonville

The construction of this wind farm began in the first quarter of 2013. At the date of this MD&A, the collector system and substation were completed, the substation had been energized and all 12 turbines had been erected. Also, on August 7, 2013, Viger-Denonville, L.P. closed a \$67.1 million long-term non-recourse project financing for this project. The construction of this facility is progressing as scheduled and budgeted. Commercial operation is expected to begin by the end of 2013.

PROJECTS IN PERMIT PHASE	Ownership %	Gross installed capacity (MW)	Expected COD	Gross estimated LTA (GWh)	PPA term (years)	Total project costs	
						Estimated <sup>1</sup> (\$M)	As at Sept. 30 (\$M)
<i>HYDRO (British Columbia)</i>							
North Creek <sup>2</sup>	66.7	16.0	2016	59.7	40	72.0	0.2
Big Silver Creek	100.0	40.6	2016	139.8	40	191.8	28.6
<i>WIND (Quebec)</i>							
Mesgi'g Ugju's'n ("MU")	50.0	150.0	2016/17	TBC <sup>3</sup>	TBC <sup>3</sup>	TBC <sup>3</sup>	0.4

1. This information is intended to inform the reader of the projects' potential impact on the Corporation's results. The actual results may vary. Please refer to the "Forward-Looking Information" section for more information.
2. On March 14, 2013, the Company announced changes to the configuration of the Boulder Creek, North Creek and Upper Lillooet River hydro projects, which included cancellation of the North Creek project, which is subject to the still-pending consent of BC Hydro. The Corporation is considering whether to continue the development of North Creek as a Prospective Project.
3. To be confirmed.

## Big Silver Creek

The project has received its land tenure and water licence from the provincial government. The remaining permits are in the process of being obtained and present no technical obstacles. The Corporation is currently negotiating with civil works contractors, turbine and generator suppliers and transmission line contractors to obtain bids that are in line with the expected project costs. Since a leave to commence construction will not be obtained prior to retaining an EPC contractor, construction for this project is now expected to begin in the spring of 2014; however, the Corporation does not expect this to have any impact on the commissioning date of 2016.

## Mesgi'g Ugju's'n ("MU")

In May 2013, as part of its procurement plans for new wind energy, the Quebec government allocated 150 MW for a wind energy project to the Mi'gmaq communities of Quebec, with whom Innergex has a partnership. The partners will share in the distributions from the project in varying proportions, based in part on their initial equity investment. Initially, the Corporation expects to fund a majority of the equity investment required for this project; as a result, it expects to receive approximately 75% of the project's cash flows during the first year. However, during the first 15 years of operation, the Corporation's partner will have the right to gradually increase its equity investment in the project up to 65% (by purchasing portions of the Corporation's equity at a price based on the present value of future cash flows using a predetermined rate of return) and therefore receive a higher proportion of cash flows. In any event, starting in the 16th year, the Corporation will receive no less than 35% and no more than 40% of the project's annual cash flows for the remaining life of the project. At the date of this MD&A, the partners were in the process of negotiating the terms of a long-term power purchase agreement with Hydro-Québec Distribution. They expect to sign this PPA shortly. The environmental assessment for the project has been completed and submitted to the Ministry of Sustainable Development, Environment, Wildlife and Parks. The partners expect to start construction on this project in 2015. The start of commercial operation is expected to be in 2016 or 2017.

## PROSPECTIVE PROJECTS

All the Prospective Projects, with a combined potential net installed capacity of 2,900 MW (gross 3,125 MW), are in the preliminary development stage. Some Prospective Projects are targeted toward specific future RFPs, such as the upcoming RFP for 450 MW of new wind energy procurement announced by the Quebec government, or SOPs, while others will be available for future RFPs yet to be announced. There is no certainty that any Prospective Project will be realized. Additional information about the Corporation's facilities and projects can be found in the Corporation's Annual Information Form for the year ended December 31, 2012, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## OPERATING RESULTS

Production of electricity in the third quarter was 106% of the long-term average due to better-than-average water flows, wind regimes and solar irradiation. For the first nine months of the year, production of electricity reached 100% of the long-term average, reflecting the benefits of the Corporation's geographic diversification and the complementarity of its renewable energy sources.

Revenues and Adjusted EBITDA increased 23% and 27% respectively in the third quarter and 21% and 24% respectively in the first nine months of 2013. These year-to-date increases are due mainly to the commissioning of the Stardale solar farm in May 2012, the addition of capacity at the Gros-Morne wind farm in November 2012, the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012 and the acquisition of the Magpie hydroelectric facility in July 2013. The third-quarter increases also reflect the above-average production levels at most of the Corporation's facilities.

The Corporation's operating results for the three- and nine-month periods ended September 30, 2013, are compared with the operating results for the same periods in 2012.

## Electricity Production

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

Three months ended September 30	2013				2012			
	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
<i>HYDRO</i>								
Quebec	132,879	118,477	112%	70.45	55,182	75,054	74%	76.74
Ontario	9,163	8,233	111%	65.23	2,590	8,233	31%	66.46
British Columbia	389,329	396,259	98%	75.15	364,920	338,646	108%	73.74
United States	15,580	16,694	93%	85.62	17,465	16,694	105%	82.33
Subtotal	546,950	539,663	101%	74.14	440,157	438,627	100%	74.41
<i>WIND</i>								
Quebec	145,269	112,804	129%	79.12	105,557	90,873	116%	81.60
<i>SOLAR</i>								
Ontario	14,276	12,818	111%	420.00	13,670	12,908	106%	420.00
Total	706,496	665,285	106%	82.15	559,383	542,408	103%	84.32

1. As a result of the application of IFRS 11, the Umbata Falls hydroelectric facility revenues are not included in the Corporation's revenues and, for the sake of consistency, its electricity production has been excluded from the production table. For more information on the Corporation's joint ventures, please refer to the "Investments in Joint Ventures" section.

2. Including all payment adjustments related to the month, day and hour of delivery, to environmental attributes and to the ecoENERGY Initiative, as applicable.

During the third quarter ended September 30, 2013, the Corporation's facilities produced 706.5 GWh of electricity, representing 106% of the LTA production. Production levels are attributable to above-average water flows across Canada and especially in Quebec and Ontario, partly offset by below-average water flows in the United States. While water flows were also above-average at most facilities in British Columbia, production levels were affected by a shutdown of Miller Creek for a capital improvement program. Wind conditions were better-than-average at all of the Corporation's wind farms. The Stardale solar farm also benefited from better-than-average solar irradiation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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Nine months ended September 30	2013				2012			
	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
<i>HYDRO</i>								
Quebec	324,190	299,704	108%	83.65	249,057	256,281	97%	82.51
Ontario	58,090	53,332	109%	67.59	42,097	53,332	79%	68.29
British Columbia	941,112	997,097	94%	74.26	849,305	873,893	97%	75.72
United States	39,111	41,577	94%	71.79	44,041	41,577	106%	67.86
Subtotal	1,362,503	1,391,710	98%	76.14	1,184,500	1,225,083	97%	76.59
<i>WIND</i>								
Quebec	488,496	469,214	104%	79.41	361,406	379,533	95%	82.13
<i>SOLAR</i>								
Ontario	34,208	32,851	104%	420.00	27,473	25,641	107%	334.71
Total	1,885,207	1,893,775	100%	83.22	1,573,379	1,630,257	97%	82.37

1. As a result of the application of IFRS 11, the Umbata Falls hydroelectric facility revenues are not included in the Corporation's revenues and, for the sake of consistency, its electricity production has been excluded from the production table. For more information on the Corporation's joint ventures, please refer to the "Investments in Joint Ventures" section.

2. Including all payment adjustments related to the month, day and hour of delivery, to environmental attributes and to the ecoENERGY Initiative, as applicable.

During the nine-month period ended September 30, 2013, the Corporation's facilities produced 1,885.2 GWh of electricity, or virtually 100% of the LTA of 1,893.8 GWh. In Quebec and Ontario, water flows have remained better than average since the beginning of the year. In British Columbia, above-average water flows at most facilities in the second and third quarter only partly compensated for below-average hydrology in the first quarter, while production levels were also affected by a shutdown for capital improvements at the Miller Creek facility. In the United States, water flows remained below average in the first and third quarter and slightly above average in the second quarter. Above-average wind conditions during the third quarter offset the lower-than-average wind conditions during the first and second quarters, with the notable exceptions of Gros-Morne, which also had above-average production during the second quarter, and Carleton, which has had above-average production since the beginning of the year. The Stardale solar farm production was slightly above its LTA, as better-than-average solar irradiation in the second and third quarters compensated for lower production in the first quarter caused by unusually large snowfalls and extremely cold weather that slowed the removal of snow from the solar panels.

The overall performance of the Corporation's facilities for the nine-month period ended September 30, 2013, demonstrates the benefits of geographic diversification and the complementarity of hydroelectric, wind and solar power generation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Financial Results

	Three months ended September 30				Nine months ended September 30			
	2013		2012		2013		2012	
Operating revenues	58,039	100.0%	47,109	100.0%	156,894	100.0%	129,538	100.0%
Operating expenses	8,185	14.1%	7,453	15.8%	22,902	14.6%	19,587	15.1%
General and administrative expenses	2,395	4.1%	2,124	4.5%	8,321	5.3%	7,796	6.0%
Prospective project expenses	771	1.3%	880	1.9%	2,320	1.5%	2,610	2.0%
Adjusted EBITDA	46,688	80.4%	36,652	77.8%	123,351	78.6%	99,545	76.8%
Finance costs	17,279		13,110		49,057		45,240	
Other net (revenues) expenses	(158)		15,759		427		14,338	
Depreciation and amortization	17,093		16,244		52,006		46,424	
Share of (earnings) loss of joint ventures <sup>1</sup>	(816)		383		(4,522)		(211)	
Unrealized net gain on derivative financial instruments	(2,404)		(9,521)		(33,560)		(2,515)	
Provision for income taxes	4,547		1,405		17,935		1,057	
Net earnings (loss)	11,147		(728)		42,008		(4,788)	
Net earnings (loss) attributable to:								
Owners of the parent	10,786		(245)		41,885		(377)	
Non-controlling interests	361		(483)		123		(4,411)	
	11,147		(728)		42,008		(4,788)	
Basic net earnings (loss) per share	0.09		(0.01)		0.38		(0.04)	

1. Under IFRS 11, Umbata Falls and Viger Denonville are treated as joint ventures and the Corporation's interests in Umbata Falls and Viger Denonville are required to be accounted for using the equity method. Please refer to the "Accounting Changes Impacting the Presentation of Results" and "Investment in Joint Ventures" sections for more information.

## Revenues

For the three-month period ended September 30, 2013, the Corporation recorded operating revenues of \$58.0 million, compared with \$47.1 million in 2012 and corresponding to an increase of 23%, due to better-than-average production at most of the Corporation's facilities and to contributions from the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012, additional capacity at the Gros-Morne wind farm since November 2012 and the acquisition of the Magpie hydroelectric facility in July 2013.

For the first nine months of 2013, the Corporation recorded revenues of \$156.9 million, compared with \$129.5 million in 2012 and corresponding to an increase of 21%, due mainly to contributions from the commissioning of the Stardale solar farm in May 2012, the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012, additional capacity at the Gros-Morne wind farm since November 2012 and the acquisition of the Magpie hydroelectric facility in July 2013.

## Expenses

Operating expenses consist primarily of the operators' salaries, insurance premiums, expenditures related to operation and maintenance, property taxes, and royalties. For the three- and nine-month periods ended September 30, 2013, the Corporation recorded operating expenses of \$8.2 million and \$22.9 million respectively (\$7.5 million and \$19.6 million respectively in 2012). This increase of 10% in the third quarter and 17% for the first nine months of 2013 is due mainly to the Corporation operating a greater number of facilities in 2013 than in 2012, following the addition of the Stardale solar farm, additional capacity at the Gros-Morne wind farm and the acquisition of the Brown Lake, Miller Creek and Magpie hydroelectric facilities. Greater maintenance and repair activities at some of the Corporation's hydroelectric facilities and wind farms during the third quarter also explain this increase in operating expenses. In particular, the gradual integration of operations and maintenance activities at the Corporation's wind farms upon expiry of the five-year contract with the original equipment manufacturer has resulted as planned in a slight increase in the operating expenses for these facilities.



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General and administrative expenses consist primarily of salaries and office expenses. For the three- and nine-month periods ended September 30, 2013, general and administrative expenses totalled \$2.4 million and \$8.3 million respectively (\$2.1 million and \$7.8 million respectively in 2012). These increases of 13% in the third quarter and 7% in the first nine months of the year reflect the Corporation's greater number of facilities in operation.

Prospective project expenses include the costs incurred for the development of Prospective Projects. They result from the number of Prospective Projects that the Corporation chooses to advance and the resources required to do so. For the three- and nine-month periods ended September 30, 2013, prospective project expenses totalled \$0.8 million and \$2.3 million respectively (\$0.9 million and \$2.6 million respectively in 2012).

## Adjusted EBITDA

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

For the three-month period ended September 30, 2013, the Corporation recorded Adjusted EBITDA of \$46.7 million, compared with \$36.7 million in the third quarter of 2012, corresponding to an increase of 27%. This increase results in part from production levels during the third quarter that were higher than the LTA, and in part from the contribution of additional capacity at the Gros-Morne wind farm and the acquisition of the Brown Lake, Miller Creek and Magpie hydroelectric facilities. The combination of a larger asset base to absorb general and administrative and prospective project expenses and above-average production to absorb operating expenses has resulted in a higher Adjusted EBITDA margin of 80.4% for the third quarter of 2013, compared with 77.8% for the same period last year.

For the first nine months of 2013, the Corporation recorded Adjusted EBITDA of \$123.4 million, compared with \$99.5 million for the same period last year, corresponding to a 24% increase. This increase results essentially from the contribution of the commissioning of the Stardale solar farm, additional capacity at the Gros-Morne wind farm and the acquisition of the Brown Lake, Miller Creek and Magpie hydroelectric facilities. Once again, the larger asset base to absorb general and administrative and prospective project expenses has resulted in a higher Adjusted EBITDA margin of 78.6%, compared with 76.8% for the same period last year.

## Finance Costs

Finance costs include interest on long-term debt and convertible debentures, inflation compensation interest, amortization of financing fees, amortization of the revaluation of long-term debt and convertible debentures and accretion expenses on other liabilities. For the three- and nine-month periods ended September 30, 2013, finance costs totalled \$17.3 million and \$49.1 million respectively (\$13.1 million and \$45.2 million respectively in 2012). These increases are due mainly to higher interest expense on the Stardale financing upon completion of the interest-rate hedging program in September 2012, higher inflation compensation interest on the Harrison Operating Facilities' real-return bonds caused by inflation during these periods, the addition of project-level debt related to the Magpie facility acquired in July 2013 and the higher interest expense on the project financing for the Carleton wind farm concluded in June 2013.

As at September 30, 2013, 97% of the Corporation's outstanding debt, including convertible debentures, was fixed or hedged against interest rate movements (100% as at September 30, 2012). The difference is due mainly to drawings on the revolving term credit facility that are greater than the swaps outstanding to fix the interest rate on the latter.

The effective all-in interest rate on the Corporation's debt and convertible debentures was 5.57% as at September 30, 2013 (5.82% as at September 30, 2012). The decrease stems from the addition of the Kwoiek Creek loan that bears a low fixed interest rate of 5.08%, the addition of the Northwest Stave River loan that bears a low fixed interest rate of 5.30% and the addition of the Magpie project debt that bears an all-in interest rate of 4.31%, partly offset by a higher all-in interest rate of 5.79% on the Stardale loan that has been hedged by an interest rate swap contract since September 2012 and by the refinancing of the Carleton loan at a higher all-in interest rate of 5.60% (4.84% previously) that has been hedged by an interest-rate swap contract since November 2008.

## Other Net (Revenues) Expenses

Other net (revenues) expenses include transaction costs, realized losses on derivative financial instruments, realized gains and losses on foreign exchange, gains and losses on contingent considerations, compensation from a contractor, settlement of claims received in relation with an acquisition and other net revenues. For the three- and nine-month periods ended September 30, 2013, the Corporation recorded other net revenues of \$0.2 million and other net expenses of \$0.4 million respectively (other net expenses of \$15.8 million and \$14.3 million respectively in 2012). The variation during the first nine months of 2013 stems mainly from a lower net realized loss of \$3.3 million on settlement of the Northwest Stave River bond forward contracts during

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the second quarter of 2013, compared with a \$14.1 million loss on the Kwoiek Creek bond forward contracts in July 2012, and to the settlement of claims received during the first quarter of 2013. The variation during the third quarter stems from the same reasons and from lower transaction costs compared with 2012.

## Depreciation and Amortization

For the three- and nine-month periods ended September 30, 2013, depreciation and amortization expenses totalled \$17.1 million and \$52.0 million respectively (\$16.2 million and \$46.4 million respectively in 2012). These increases are attributable mainly to the larger asset base resulting from the addition of the Stardale solar farm, additional turbines installed at the Gros-Morne wind farm and the acquisition of the Brown Lake, Miller Creek and Magpie hydroelectric facilities. Amortization expenses alone decreased during the third quarter of 2013, as a result of a change in accounting estimates to amortize intangible assets of the Quebec hydroelectric facilities, which reflects the renewal rights of their PPAs for periods of 20 to 25 years. For more information on changes to accounting policies used, please refer to the "Accounting changes" section.

## Derivative Financial Instruments

The Corporation uses derivative financial instruments to manage its exposure to the risk of rising interest rates on its debt financing ("Derivatives"), thereby protecting the economic value of its projects. Innergex also has derivative financial instruments embedded in some of its PPAs. The Corporation does not use hedge accounting for its derivative financial instruments nor does it own or issue financial instruments for speculative purposes. Since several interest rate swaps are entered into for a term equal in length to the underlying debt amortization schedule, which can reach 30 years, a Derivative's fair market value can be very sensitive to quarter-to-quarter variations in long-term interest rates.

For the three- and nine-month periods ended September 30, 2013, the Corporation recognized an unrealized net gain on derivative financial instruments of \$2.4 million and \$33.6 million respectively, due mainly to the increase in benchmark interest rates since the end of 2012. For the corresponding periods of 2012, Innergex also recognized an unrealized net gain on derivative financial instruments of \$9.5 million and \$2.5 million respectively, due mainly to the increase in benchmark interest rates since December 31, 2011.

As of August 2013, the Corporation has begun a hedging program to fix the interest rate on future project-level debt for the Upper Lillooet River, Boulder Creek, Tretheway Creek and Big Silver Creek projects. As at the date of this MD&A, the Corporation had entered into additional derivative financial instruments totaling \$210.0 million for the Upper Lillooet River, Boulder Creek and Tretheway Creek projects. Upon the closing of each fixed-rate or interest-swapped long-term financing, the Corporation will settle the corresponding derivative financial instruments, which will result in a realized gain or loss on derivative financial instruments. These gains or losses will serve to offset a higher or lower interest rate on the project-level debt.

## Provision for Income Taxes

For the three- and nine-month periods ended September 30, 2013, the Corporation recorded a current provision for income taxes of \$0.9 million and \$2.6 million respectively (\$0.6 million and \$1.6 million respectively in 2012) and a deferred provision for income taxes of \$3.6 million and \$15.4 million respectively (deferred provision for income taxes of \$0.8 million and a recovery of \$0.5 million, respectively in 2012). The difference in the deferred provision for income taxes in the third quarter is due primarily to higher Adjusted EBITDA and a positive net variation in other net revenues or expenses, compared with the same period last year; the difference in the nine-month period is due to the same reasons and to the larger unrealized net gain on derivative financial instruments that was recognized, compared with the same period last year.

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## Net Earnings (Loss)

For the third quarter ended September 30, 2013, the Corporation recorded net earnings of \$11.1 million (basic and diluted net earnings of \$0.09 per share), compared with a net loss of \$0.7 million (basic and diluted net loss of \$0.01 per share) in 2012.

### Main items contributing to the net earnings for the third quarter of 2013, compared with a net loss for the corresponding period in 2012:

Main items – Positive impact	Variation	Explanation
Adjusted EBITDA	10,036	Due mainly to above-average production, the addition of capacity at Gros-Morne and the Brown Lake, Miller Creek and Magpie acquisitions.
Other net revenues or expenses	15,917	Due mainly to a net realized loss of \$14.1 million in the third quarter of 2012 on the settlement of the Kwoiek Creek bond forward contracts and to a \$1.8 million reduction in transaction costs incurred in 2013, compared with the same period last year.
Share of earnings or losses of joint ventures	1,199	Due mainly to net earnings recognized by joint ventures from gains on derivative financial instruments during the third quarter of 2013, compared with a net loss in the same period last year.
Main items – Negative impact	Variation	Explanation
Finance costs	4,169	Due mainly to higher inflation compensation interest on the real-return bonds and an increase in long-term debt outstanding during the third quarter of 2013, compared with the same period last year.
Unrealized net gain on derivative financial instruments	7,117	Due mainly to a lesser increase in benchmark interest rates during the third quarter of 2013 than during the third quarter of 2012.
Provision for income taxes	3,142	Due to the above variations.

For the nine-month period ended September 30, 2013, the Corporation recorded net earnings of \$42.0 million (basic and diluted net earnings of \$0.38 per share). For the corresponding period of 2012, Innergex recorded a net loss of \$4.8 million (basic and diluted net loss of \$0.04 per share).

### Main items contributing to the net earnings for the first nine months of 2013, compared with a net loss for the corresponding period in 2012:

Main items – Positive impact	Variation	Explanation
Adjusted EBITDA	23,806	Due mainly to the commissioning of Stardale, additional capacity at Gros-Morne and the Brown Lake, Miller Creek and Magpie acquisitions.
Other net revenues or expenses	13,911	Due mainly to a smaller net realized loss of \$3.3 million on the settlement of the Northwest Stave River bond forwards, compared with a net realized loss of \$14.1 million in 2012 on the settlement of the Kwoiek Creek bond forwards, and to a \$2.0 million settlement of claims received in 2013.
Share of earnings or losses of joint ventures	4,311	Due mainly to higher net earnings recognized by joint ventures from gains on derivative financial instruments during the first nine months of 2013 compared with the same period last year.
Unrealized net gain on derivative financial instruments	31,045	Due to a greater increase in benchmark interest rates during the first nine months of 2013 than during the first nine months of 2012.
Main items – Negative impact	Variation	Explanation
Finance costs	3,817	Due mainly to higher interest on the Stardale financing and an increase in long-term debt outstanding during the first nine months of 2013, compared with the same period last year.
Depreciation and amortization	5,582	Due mainly to the larger asset base resulting from the addition of Stardale, additional turbines at Gros-Morne and the Brown Lake, Miller Creek and Magpie acquisitions.
Provision for income taxes	16,878	Due to the above variations.

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The basic and diluted per-share figures for the three-month period ended September 30, 2013, are based on a weighted average number of 94,922,212 common shares outstanding. The basic and diluted per-share figures for the nine-month period ended September 30, 2013, are based on a weighted average number of 94,405,454 and 94,459,843 common shares outstanding respectively. For the three- and nine-month periods ended September 30, 2013, 2,736,684 and 2,073,420 stock options respectively were non-dilutive, as the average market price of the Corporation's common share was below the strike price. Convertible Debentures were non-dilutive, as the average market price of the Corporation's common share was below the conversion price. A total of 7,558,684 common shares could potentially have been issued on conversion of the convertible debentures.

The basic and diluted per-share figures for the three-month period ended September 30, 2012, were based on a weighted average number of 89,935,944 and 90,246,567 common shares outstanding respectively. During this period, 940,000 stock options were non-dilutive, as the average market price of the Corporation's common share was below the strike price. The other 1,521,060 stock options and 7,558,684 shares potentially issued on conversion of convertible debentures were excluded from the calculation of diluted net loss per share as it was anti-dilutive due to a net loss available to common shareholders, despite the average market price of the Corporation's common share being above the strike price.

The basic and diluted per-share figures for the nine-month period ended September 30, 2012, were based on a weighted average number of 84,188,009 and 84,343,513 common shares outstanding respectively. During this period, 940,000 stock options and 7,558,684 shares potentially issued on conversion of convertible debentures were non-dilutive, as the average market price of the Corporation's common share was below the strike price and conversion price. The other 1,521,060 stock options were excluded from the calculation of diluted net loss per share as it was anti-dilutive due to a net loss available to common shareholders, despite the average market price of the Corporation's common share being above the strike price.

As at September 30, 2013, the Corporation had a total of 95,014,255 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares, 2,000,000 Series C Preferred Shares and 2,736,684 stock options outstanding. As at September 30, 2012, it had 93,380,863 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares and 2,461,060 stock options outstanding.

As at the date of this MD&A, the Corporation had a total of 95,654,911 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares, 2,000,000 Series C Preferred Shares and 2,736,684 stock options outstanding. The increase in the number of common shares since September 30, 2013, is attributable to the Dividend Reinvestment Plan ("DRIP").

## **Non-controlling Interests**

For the three- and nine-month periods ended September 30, 2013, the Corporation allocated earnings of \$0.4 million and earnings of \$0.1 million respectively to non-controlling interests (losses of \$0.5 million and \$4.4 million respectively in 2012). These non-controlling interests are related mostly to the six hydroelectric facilities ("Harrison Operating Facilities") acquired as part of the acquisition of Cloudworks Energy Inc., the Fitzsimmons Creek Operating Facility and the Kwoiek Creek Development Project. Please refer to the "Non-Wholly Owned Subsidiaries" section for more information.

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

## LIQUIDITY AND CAPITAL RESOURCES

For the nine-month period ended September 30, 2013, the Corporation generated cash flows from operating activities of \$86.8 million, compared with \$48.8 million for the same period the previous year. During this period, the Corporation generated funds from financing activities of \$8.8 million and used funds for investing activities of \$95.5 million, mainly to pay for the construction of three projects scheduled to begin commercial operation later this year, for pre-construction of five Development Projects and for the Magpie acquisition. The difference between the inflow from financing activities and the outflow from investing activities is due mainly to the Corporation using cash flows from operations and pre-financing its capital expenditure investments in previous quarters. As at September 30, 2013, the Corporation had cash and cash equivalents amounting to \$49.5 million, unchanged from December 31, 2012.

### Cash Flows from Operating Activities

For the nine-month period ended September 30, 2013, cash flows generated by operating activities totalled \$86.8 million (\$48.8 million in 2012). This increase is due mainly to a positive net variation of \$10.9 million in the realized loss on derivative financial instruments, a positive net variation of \$3.9 million in non-cash operating working capital items and a \$23.8 million increase in Adjusted EBITDA attributable mainly to contributions from the commissioning of the Stardale solar farm in May 2012, the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012, additional capacity at the Gros-Morne wind farm since November 2012 and the acquisition of the Magpie hydroelectric facility in July 2013

### Cash Flows from Financing Activities

For the nine-month period ended September 30, 2013, cash flows generated by financing activities totalled \$8.8 million (\$218.9 million generated in 2012). This results mainly from a smaller net increase in long-term debt (net increase in long-term debt of \$42.5 million for the nine-month period ended September 30, 2013, compared with a net increase of \$142.5 million for the same period in 2012) and a \$5.2 million net decrease in dividends paid to preferred and common shareholders as well as the issuance of common shares in 2012 for net proceeds of \$114.4 million. The total amount of dividends paid to common shareholders decreased as a result of the implementation of the dividend reinvestment plan in August 2012, while the dividends paid to preferred shareholders increased as a result of the issuance of Series C Preferred Shares in December 2012.

Use of Financing Proceeds	Nine months ended September 30	
	2013	2012
Proceeds from issuance of long-term debt	167,414	318,494
Proceeds from issuance of common shares	—	114,414
Proceeds from exercise of share options	—	507
	167,414	433,415
Restricted cash and short-term investments	30,186	(65,494)
Repayment of long-term debt	(122,015)	(171,817)
Payment of deferred financing costs	(2,933)	(4,138)
Payment of Series C Preferred Shares issuance costs	(353)	—
Net funds withdrawn (invested into) from the reserves	46	(1,064)
Additions to property, plant and equipment	(65,367)	(121,927)
Additions to intangible assets	(14,758)	(485)
Additions to project development costs	(15,078)	(3,334)
Business acquisition	(28,577)	—
Investments in joint ventures	(2,922)	(2,100)
Short-term loan	—	(1,000)
Loans to related parties	(576)	—
Additions to other long-term assets	(439)	(27,226)
Use of financing proceeds	(252,972)	(333,091)
(Reduction) increase of working capital	(85,558)	100,324

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

During the nine-month period ended September 30, 2013, the Corporation borrowed \$167.4 million, used \$30.2 million from restricted cash and short-term investments and used \$85.6 million of its working capital to pay for the construction of the Kwoiek Creek and Northwest Stave River projects, for the pre-construction development of the Upper Lillooet River, Boulder Creek, Tretheway Creek, Big Silver Creek and Mesgi'g Ugju's'n projects, to acquire the Magpie hydroelectric facility, to provide an equity investment to Viger-Denonville, L.P., to repay long-term debt and to reduce drawings under the revolving term credit facility. During the corresponding period of 2012, the Corporation borrowed \$318.5 million and issued \$114.4 million of common shares to pay for the construction of the Kwoiek Creek, Northwest Stave River and Gros-Morne II projects and for the construction of Stardale, to repay the Glen Miller long-term debt and to contribute \$100.3 million to its working capital.

## Cash Flows from Investing Activities

For the nine-month period ended September 30, 2013, cash flows used by investing activities amounted to \$95.5 million (\$222.6 million in 2012). During this period, additions to property, plant and equipment accounted for a \$65.4 million outflow (\$121.9 million outflow in 2012), the Magpie acquisition accounted for a \$28.6 million outflow (nil in 2012), a \$5.5 million equity investment in Viger-Denonville, L.P. and a \$2.6 million reimbursement of an equity investment made to Viger-Denonville, L.P. following the first drawing on the project financing accounted for a \$2.9 million net outflow and additions to project development costs accounted for a \$15.1 million outflow (\$3.3 million outflow in 2012), partly offset by a decrease in restricted cash and short-term investments for a \$30.2 million inflow (\$65.5 million outflow in 2012). Also, \$13.5 million in cash advances made during the second quarter of 2013 to Viger-Denonville, L.P. in the form of a loan to a related party were reimbursed during the third quarter once the project-level financing was in place; the Corporation subsequently made a second cash advance of \$0.6 million.

## Cash and Cash Equivalents

For the nine-month period ended September 30, 2013, cash and cash equivalents remained unchanged (increased by \$45.0 million in 2012) as a net result of its operating, financing and investing activities. As at September 30, 2013, the Corporation had cash and cash equivalents amounting to \$49.5 million (\$49.5 million as at December 31, 2012).

## DIVIDENDS

The following dividends were declared by the Corporation:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Dividends declared on common shares	13,695	13,540	41,097	37,112
Dividends declared on common shares (\$ per share)	0.1450	0.1450	0.4350	0.4350
Dividends declared on Series A Preferred Shares	1,063	1,063	3,188	3,188
Dividends declared on Series A Preferred Shares (\$ per share)	0.3125	0.3125	0.9375	0.9375
Dividends declared on Series C Preferred Shares	719	—	2,422	—
Dividends declared on Series C Preferred Shares (\$ per share)	0.359375	—	1.211050	—

The following dividends will be paid by the Corporation on January 15, 2014:

Date of announcement	Record date	Payment date	Dividends per common share (\$)	Dividends per Series A Preferred Share (\$)	Dividends per Series C Preferred Share (\$)
11/5/2013	12/31/2013	1/15/2014	0.1450	0.3125	0.359375



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## FINANCIAL POSITION

At September 30, 2013, the Corporation had \$2,377 million in total assets, \$1,705 million in total liabilities, including long-term debt of \$1,315 million, and \$672.5 million in shareholders' equity.

Also at September 30, 2013, the Corporation had a working capital ratio of 1.47:1.00 (1.58:1.00 as at December 31, 2012). In addition to cash and cash equivalents amounting to \$49.5 million, the Corporation had restricted cash and short-term investments of \$57.6 million and reserve accounts of \$48.0 million at the end of the third quarter.

### Assets

As at September 30, 2013, the Corporation had \$2,377 million in total assets (\$2,296 million as at December 31, 2012).

#### Highlights of significant variations in total assets during the first nine months of 2013:

- A net decrease in cash and cash equivalents and restricted cash and short-term investments from \$137.3 million as at December 31, 2012, to \$107.1 million as at September 30, 2013, due mainly from amounts being drawn as construction progresses on the Kwoiek Creek project, while the funds were received in full upon closing of the financing for this project, partly offset by the addition of the Northwest Stave River loan;
- A decrease in accounts receivable from \$50.1 million to \$35.3 million, as explained in the "Working Capital Items" section below;
- A decrease in loans to related parties of \$22.9 million due mainly to the completion of a distribution by the Harrison Operating Facilities;
- An increase in property, plant and equipment from \$1,427 million to \$1,529 million due mainly to the Development Projects under construction and the acquisition of the Magpie hydroelectric facility, partly offset by depreciation;
- An increase in intangible assets from \$429.4 million to \$458.0 million, due mainly to the acquisition of the Magpie hydroelectric facility, partly offset by amortization;
- An increase in project development costs from \$103.5 million to \$118.0 million, due mainly to pre-construction activities related to the Upper Lillooet River, Boulder Creek, Tretheway Creek, Big Silver Creek and Mesgi'g Ugu's'n projects.

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### Working Capital Items

As at September 30, 2013, working capital was positive at \$49.4 million with a working capital ratio of 1.47:1.00. As at December 31, 2012, working capital was positive at \$80.9 million with a working capital ratio of 1.58:1.00. The decrease in the working capital ratio over this period is due to decreases in restricted cash and short-term investments, in accounts receivable and in loans to related parties, which are explained separately below. These items were partly offset by the reclassification of the Carleton loan back into long-term debt following its refinancing in June 2013; since November 2012, the entire amount of the loan had been recorded in the current portion of long-term debt in view of its then November 2013 term maturity.

In view of these ratios, the Corporation considers its current level of working capital to be sufficient to meet its needs. The Corporation can also use its \$425.0 million revolving term credit facility if necessary. As at September 30, 2013, the Corporation had drawn US\$13.9 million and \$167.3 million as cash advances and \$29.6 million had been used for issuing letters of credit.

Restricted cash and short-term investments are related to the Harrison Operating Facilities, the Kwoiek Creek loan and the Northwest Stave River loan. As at September 30, 2013, restricted cash and short-term investments amounted to \$57.6 million, of which \$5.8 million was related to the Harrison Operating Facilities, \$37.2 million was related to the Kwoiek Creek loan and \$14.6 million was related to the Northwest Stave River loan (\$87.8 million as at December 31, 2012, of which \$6.6 million was related to the Harrison Operating Facilities and \$81.2 million was related to the Kwoiek Creek loan). The decrease stems mainly from amounts being drawn as construction progresses on the Kwoiek Creek project, partly offset by the addition of the Northwest Stave River loan.

Accounts receivable decreased from \$50.1 million as at December 31, 2012, to \$35.3 million as at September 30, 2013. The decrease stems mainly from the collection of \$6.4 million in commodity taxes receivable for the Gros-Morne wind farm and \$15.3 million from Hydro-Québec for the Gros-Morne substation, partly offset by a \$10.2 million increase in trades receivable.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Loans to related parties decreased from \$23.4 million as at December 31, 2012 to \$0.6 million as at September 30, 2013, as the Harrison Operating Facilities completed a distribution that resulted in a \$23.4 million decrease in loans to related parties, as well as a corresponding decrease in non-controlling interests with no impact on net earnings (loss) or cash flows.

Accounts payable and other payables increased from \$41.3 million as at December 31, 2012, to \$44.5 million as at September 30, 2013, due mainly to accounts payable related to the construction of the Kwoiek Creek and Northwest Stave River projects and to the reclassification to short-term accounts payable of liabilities related to the construction of the Northwest Stave River project.

Derivative financial instruments included in current liabilities decreased from \$17.2 million as at December 31, 2012, to \$14.3 million as at September 30, 2013, as a result of the increase in benchmark interest rates.

The current portion of long-term debt relates to the payments to be made within a year on the Operating Facilities' term loans and bonds. The decrease from \$63.9 million as at December 31, 2012, to \$27.3 million as at September 30, 2013, is due mainly to the refinancing of the Carleton loan in June 2013 and the reclassification of the outstanding balance of the loan as long-term debt.

## Reserve Accounts

	September 30, 2013	December 31, 2012
Hydrology/wind reserve	44,506	45,291
Major maintenance reserve	3,512	2,325
Total	48,018	47,616

The Corporation holds two types of reserve accounts designed to help ensure its stability:

- i) The Hydrology/wind reserve is established at the start of commercial operations at a facility to compensate for the variability of cash flows related to fluctuations in hydrology and the wind regime and to other unpredictable events. The amounts in this reserve are expected to vary from quarter to quarter according to the seasonality of cash flows.
- ii) The Major maintenance reserve is established in order to prefund any major plant repairs that may be required to maintain the Corporation's generating capacity.

The availability of funds in the Hydrology/wind and Major maintenance reserve accounts may be restricted by credit agreements and trust indentures.

## Property, Plant and Equipment

Property, plant and equipment are comprised mainly of hydroelectric facilities, wind farms and a solar farm that are either in operation or under construction. They are recorded at cost less accumulated depreciation and accumulated impairment losses. They are depreciated using the straight-line method over the lesser of (i) the period for which the Corporation owns the rights to the assets or (ii) a period of 15 to 75 years for hydroelectric facilities or 15 to 25 years for wind farms or 25 years for the solar farm. The Corporation had \$1,529 million in property, plant and equipment as at September 30, 2013, compared with \$1,427 million as at December 31, 2012. This increase stems mainly from the acquisition of the Magpie hydroelectric facility and from the Kwoiek Creek and Northwest Stave River projects currently under construction, partly offset by depreciation.

## Intangible Assets

Intangible assets consist of various PPAs, permits and licenses. They also include the extended warranty for the Carleton, Montagne Sèche and Gros-Morne wind farm turbines. The Corporation reported \$458.0 million in intangible assets as at September 30, 2013, an increase of \$28.6 million from the \$429.4 million reported as at December 31, 2012. This increase stems from the addition of \$29.4 million in intangible assets from the Magpie acquisition and of \$14.7 million in intangible assets from the subsequent adjustment of the Brown Lake and Miller Creek acquisitions, partly offset by amortization.

In addition, the Corporation has changed the accounting estimates to amortize intangible assets of the Quebec hydroelectric facilities to reflect the renewal rights of their PPAs for periods of 20 to 25 years. For more information on changes to accounting policies used, please refer to the "Accounting Changes" section.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Excluding \$4.5 million related to the wind farms' extended warranty and \$4.8 million related to water rights acquired as part of the Magpie acquisition, intangible assets are amortized using the straight-line method over four- to 43-year periods that commence when the related project is commissioned or acquired. The wind farms' extended warranty is amortized using the straight-line method over the three-year extended warranty period. The water rights are not amortized because they are owned in perpetuity.

## Project Development Costs

Project development costs are the costs to acquire and develop Development Projects and to acquire Prospective Projects. Depending on their nature, these costs are transferred either to property, plant and equipment or to intangible assets once the project reaches the construction phase. As at September 30, 2013, the Corporation had \$118.0 million in project development costs (\$103.5 million as at December 31, 2012). This increase is due to the expenses incurred for the Upper Lillooet River, Boulder Creek, Tretheway Creek, Big Silver Creek and Mesgi'g Ugju's'n Development Projects.

## Investments in Joint Ventures

Investments in joint ventures represent the Corporation's ownership portion of joint ventures, which are incorporated in the financial statements using the equity method of accounting. As at September 30, 2013, the Corporation had \$24.3 million in investments in joint ventures (\$18.9 million as at December 31, 2012). This increase of \$5.4 million reflects the recognition of net earnings at the joint venture level during the first nine months of 2013 and an investment of \$5.5 million made by each of the partners in Viger-Denonville, L.P., partly offset by a \$2.6 million reimbursement for equity investments that the Corporation had made to Viger-Denonville, L.P. in excess of its equity participation prior to closing the project financing and by distributions paid by joint ventures.

## Liabilities and Shareholders' Equity

### Derivative Financial Instruments and Risk Management

The Corporation uses derivative financial instruments to manage its exposure to the risk of increasing interest rates on its debt financing. The Corporation does not own or issue any Derivatives for speculation purposes. The Corporation does not use hedge accounting to account for its Derivatives.

Interest rate swap contracts allow the Corporation to eliminate the risk of interest rate increases in actual floating-rate debts, which totalled \$491.3 million as at September 30, 2013. In addition, Umbata Falls, L.P. had swap contracts totaling \$46.9 million to hedge all of the Umbata Falls loan and Viger-Denonville, L.P. had a swap contract of \$58.5 million to hedge 95% of the Viger-Denonville loan. Consequently, as at September 30, 2013, interest rate swaps related to outstanding debts combined with the \$822.1 million in existing fixed-rate debts and the \$79.8 million in convertible debentures mean that 97% of outstanding debts, including those of joint ventures, are protected from interest rate increases.

In addition, bond forward contracts allow the Corporation to eliminate the risk of interest rate increases in planned long-term debt that it will need to secure for the Upper Lillooet River, Boulder Creek, Tretheway Creek and Big Silver Creek Development Projects. As at the date of this MD&A, the Corporation had entered into bond forward contracts totaling \$210.0 million for the Upper Lillooet River, Boulder Creek and Tretheway Creek projects. Upon the closing of each fixed-rate or interest-swapped long-term financing, the Corporation will settle the corresponding derivative financial instruments, which will result in a realized gain or loss on derivative financial instruments. These gains or losses will serve to offset a higher or lower interest rate on the project-level debt.

Derivatives had a net negative value of \$43.2 million at September 30, 2013 (negative \$78.0 million at December 31, 2012). This favourable difference is due mainly to an increase in benchmark interest rates since the end of 2012. The estimated impact of a 0.1% interest rate increase would decrease the interest rate swap-related liability by \$3.6 million. Conversely, a 0.1% interest-rate decrease would increase the interest rate swap-related liability by \$3.6 million. These figures exclude the impact of derivatives used to hedge loans of the Corporation's joint ventures. For information on the impact of derivatives used in the Corporation's joint ventures, please refer to the "Investments in Joint Ventures" section.

As at September 30, 2013, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at \$7.1 million (\$8.4 million as at December 31, 2012). These instruments represent the value attributed to minimum inflation clauses of 3% per year included in these PPAs.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Accrual for Acquisition of Long-Term Assets

Accrual for acquisition of long-term assets consists of long-term debt commitments that have been secured and will be drawn to finance the Corporation's projects currently under construction or under development for which construction has been completed but costs remained to be paid. As at September 30, 2013, the Corporation had \$2.9 million in accrual for acquisition of long-term assets (\$12.9 million as at December 31, 2012). This decrease stems mainly from the reclassification of accounts payables for the Northwest Stave River project to current liabilities following the closing of the long-term financing for this project in May 2013.

## Long-Term Debt

As at September 30, 2013, long-term debt totalled \$1,342 million (\$1,231 million as at December 31, 2012). The \$111.5 million increase in long-term debt results mainly from the addition of the \$72.0 million financing for the Northwest Stave River hydroelectric project, higher proceeds of \$11.6 million from the refinancing of the Carleton wind farm and the addition of the Magpie debts in the amount of \$65.1 million, which were offset by a \$22.5 million net decrease in drawings under the revolving term credit facility and \$18.7 million in scheduled long-term debt repayments. The Magpie debts consist of \$58.7 million in project financing, a \$4.6 million convertible debenture and a \$1.8 million non-interest bearing debenture repayable over the next five years. These debt amounts reflect their adjustment to fair market value upon consolidation of Magpie.

Since the beginning of the 2013 fiscal year, the Corporation and its subsidiaries have met all the financial and non-financial conditions related to their credit agreements, trust indentures and PPAs. If they are not met, certain financial and non-financial covenants included in the credit agreements, trust indentures or PPAs entered into by various subsidiaries of the Corporation could limit the capacity of these subsidiaries to transfer funds to the Corporation. These restrictions could have a negative impact on the Corporation's ability to meet its obligations.

## Other Liabilities

Other liabilities, including amounts shown in current liabilities, consist of contingent considerations, asset retirement obligations relating to the Corporation's wind and solar farms and a royalty obligation. As at September 30, 2013, the Corporation had \$12.0 million in other liabilities (\$8.9 million as at December 31, 2012). This increase of \$3.2 million is due mainly to the addition of a royalty obligation related to the Magpie hydroelectric facility acquired in July 2013 and represents the present value of a contractual stream of royalty payments to the Minganie Regional County Municipality.

## Deferred Income Taxes

The tax impact of temporary differences may result in future tax assets or liabilities. As at September 30, 2013, the Corporation's net deferred tax liability was \$159.0 million (\$133.4 million as at December 31, 2012).

## Shareholders' Equity

As at September 30, 2013, the shareholders' equity of the Corporation totalled \$672.5 million, including \$84.3 million of non-controlling interests, compared with \$687.9 million, including \$107.6 million of non-controlling interests, as at December 31, 2012. The slight decrease in total shareholders' equity stems mainly from the \$23.4 million decrease in non-controlling interests following the distribution made by the Harrison Operating Facilities. The increase in shareholders' equity resulting from the recognition of net earnings was offset by a decrease resulting from dividends declared.

## Off-Balance-Sheet Arrangements

As at September 30, 2013, the Corporation had issued letters of credit totalling \$41.0 million to meet its obligations under its various PPAs and other agreements. Of this amount, \$29.6 million was issued under its revolving term credit facility and the remainder under the projects' non-recourse credit facilities. As at that date, Innergex had also issued a total of \$12.8 million in corporate guarantees to support the construction of the Gros-Morne wind farm, the performance of the Brown Lake and Miller Creek hydroelectric facilities and some Derivatives.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

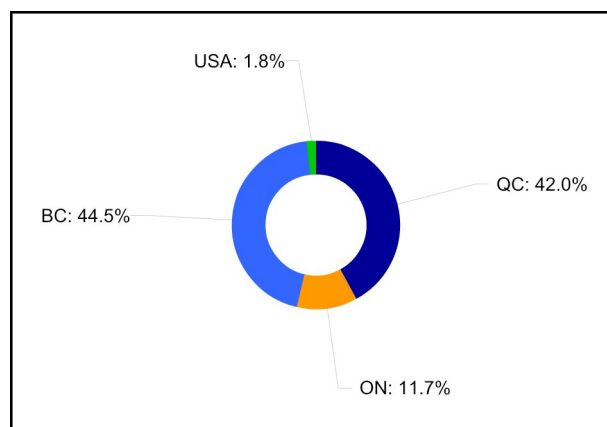
(in thousands of Canadian dollars, except as noted, and amounts per share)

## SEGMENT INFORMATION

### Geographic Segments

As at September 30, 2013, the Corporation had interests in 22 hydroelectric facilities, five wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the three- and nine-month periods ended September 30, 2013, operating revenues generated by the Horseshoe Bend hydroelectric facility in the United States totalled \$1.3 million and \$2.8 million respectively (\$1.4 million and \$3.0 million respectively in 2012), representing contributions of 2.3% and 1.8% respectively (3.1% and 2.3% respectively in 2012) to the Corporation's consolidated operating revenues for these periods.

**Breakdown of Operating Revenues by Region for the First Nine Months of 2013**



### Operating Segments

As at September 30, 2013, the Corporation had four operating segments: hydroelectric generation, wind power generation, solar power generation and site development.

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

The accounting policies for these segments are the same as those described in the "Significant Accounting Policies" section of the Corporation's audited consolidated financial statements for the year ended December 31, 2012. 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 power 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.

	Hydroelectric Generation	Wind Power Generation	Solar Power Generation	Site Development	Total
<b>Three-month period ended September 30, 2013</b>					
Power generated (MWh)	546,950	145,269	14,276	—	706,496
Operating revenues	40,550	11,493	5,996	—	58,039
Expenses:					
Operating expenses	5,800	2,123	262	—	8,185
General and administrative expenses	1,635	410	74	276	2,395
Prospective project expenses	—	—	—	771	771
<b>Adjusted EBITDA</b>	<b>33,115</b>	<b>8,960</b>	<b>5,660</b>	<b>(1,047)</b>	<b>46,688</b>
<b>Three-month period ended September 30, 2012</b>					
Power generated (MWh)	440,157	105,557	13,670	—	559,383
Operating revenues	32,754	8,614	5,741	—	47,109
Expenses:					
Operating expenses	5,498	1,833	122	—	7,453
General and administrative expenses	1,329	443	109	243	2,124
Prospective project expenses	—	—	—	880	880
<b>Adjusted EBITDA</b>	<b>25,927</b>	<b>6,338</b>	<b>5,510</b>	<b>(1,123)</b>	<b>36,652</b>

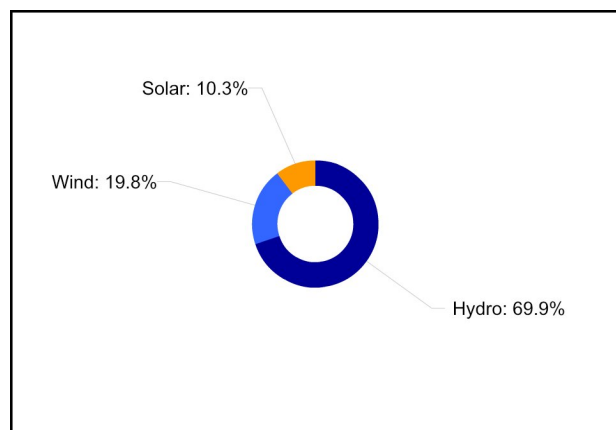
# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

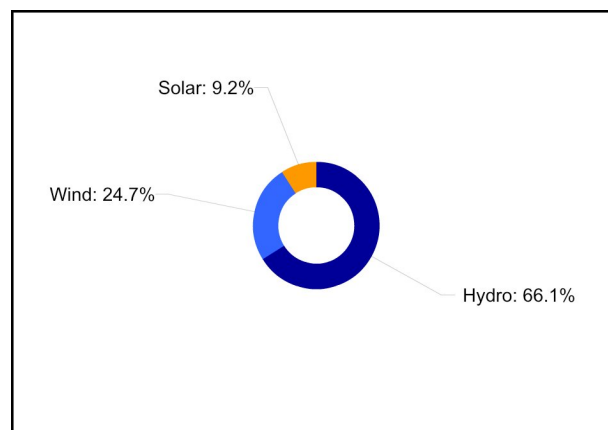
	Hydroelectric Generation	Wind Power Generation	Solar Power Generation	Site Development	Total
<b>Nine-month period ended September 30, 2013</b>					
Power generated (MWh)	1,362,503	488,496	34,208	—	1,885,207
Operating revenues	103,736	38,791	14,367	—	156,894
Expenses:					
Operating expenses	15,445	6,597	860	—	22,902
General and administrative expenses	5,388	1,568	241	1,124	8,321
Prospective project expenses	—	—	—	2,320	2,320
Adjusted EBITDA	82,903	30,626	13,266	(3,444)	123,351
<b>Nine-month period ended September 30, 2012</b>					
Power generated (MWh)	1,184,500	361,406	27,473	—	1,573,379
Operating revenues	90,721	29,682	9,135	—	129,538
Expenses:					
Operating expenses	13,884	5,540	163	—	19,587
General and administrative expenses	4,161	1,828	138	1,669	7,796
Prospective project expenses	—	—	—	2,610	2,610
Adjusted EBITDA	72,676	22,314	8,834	(4,279)	99,545

	Hydroelectric Generation	Wind Power Generation	Solar Power Generation	Site Development	Total
<b>As at September 30, 2013</b>					
Goodwill	8,269	—	—	—	8,269
Total assets	1,380,129	390,570	130,225	476,384	2,377,308
Total liabilities	875,684	382,306	136,201	310,630	1,704,821
Acquisition of property, plant and equipment since the beginning of the year	63,753	1,018	100	73,128	137,999
<b>As at December 31, 2012</b>					
Goodwill	8,269	—	—	—	8,269
Total assets	1,281,758	423,634	139,222	451,826	2,296,440
Total liabilities	809,611	383,435	144,555	270,907	1,608,508
Acquisition of property, plant and equipment during the year	64,944	3,682	153	169,508	238,287

**Breakdown of Operating Revenues by Operating Segment  
Third Quarter**



**Nine Months**





# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Hydroelectric Generation Segment

For the three-month period ended September 30, 2013, this segment produced 1% more power than the LTA (production was equal to the LTA in 2012) and generated operating revenues of \$40.6 million (\$32.8 million in 2012). The production level was due mainly to above-average water flows across Canada, especially in Quebec and Ontario, offset by below-average water flows at the Horseshoe Bend facility in the United States and some of the facilities in British Columbia as well as shutdowns for capital improvements at the Miller Creek facility. The increase in operating revenues stems mainly from the Magpie facility acquired in July 2013 and the contribution of the Brown Lake and Miller Creek facilities acquired in October 2012.

For the nine-month period ended September 30, 2013, the hydroelectric generation segment produced 2% less than the LTA (3% less in 2012) and generated operating revenues of \$103.7 million (\$90.7 million in 2012). The production level is due mainly to quarterly variations in hydrology reverting to the average during the first nine months, with water flows remaining above average in Quebec and Ontario since the beginning of the year, being below average in the first quarter and slightly above average in the second and third quarters in British Columbia and being below average in the first and third quarters and above-average in the second quarter in the United States. Production levels in British Columbia were further affected by the shutdown of the Miller Creek facility for major capital improvements. The increase in operating revenues stems mainly from the acquisition of the Brown Lake and Miller Creek facilities in October 2012 and the Magpie facility in July 2013.

The increase in total assets since December 31, 2012, is attributable mainly to the increase in property, plant and equipment relating to the Development Projects and the acquisition of the Magpie facility, partly offset by depreciation of property, plant and equipment and amortization of intangible assets.

The increase in total liabilities since December 31, 2012, is attributable mainly to the acquisition of Magpie, offset by scheduled repayment of long-term debt.

## Wind Power Generation Segment

For the three-month period ended September 30, 2013, the wind power generation segment produced 29% more than the LTA (16% more in 2012) and generated operating revenues of \$11.5 million (\$8.6 million in 2012). For the nine-month period ended September 30, 2013, this segment produced 4% more than the LTA (5% less in 2012) and generated revenues of \$38.8 million (\$29.7 million in 2012).

For the three- and nine-month periods ended September 30, 2013, the production levels are due mainly to better-than-average wind conditions at all wind farms during the third quarter, which helped offset the slightly lower-than-average wind conditions incurred during the first and second quarters, with the notable exceptions of Gros-Morne, which also had above-average production in the second quarter, and Carleton, which has had above-average production since the beginning of the year. During the first quarter of 2012, production was also affected by a halt in production at the Gros-Morne wind farm following a load rejection event. The higher operating revenues in 2013 compared with 2012 are due mainly to the higher-than-average production levels and the additional capacity at the Gros-Morne wind farm.

The decrease in total assets since December 31, 2012, is attributable mainly to depreciation of property, plant and equipment and amortization of intangible assets.

The slight decrease in total liabilities since December 31, 2012, is attributable mainly to payments of accounts payable related to Gros-Morne and Montagne-Sèche and to scheduled repayment of long-term debt, which have offset the additional proceeds of \$11.6 million from the refinancing of the Carleton loan.

## Solar Power Generation Segment

This segment was added after the start of commercial operation of the Stardale solar farm on May 15, 2012. For the three-month period ended September 30, 2013, the solar power generation segment produced 11% more than the LTA (6% more in 2012) and generated operating revenues of \$6.0 million (\$5.7 million in 2012). For the nine-month period ended September 30, 2013, the solar power generation segment produced 4% more than expected (7% more in 2012), and generated operating revenues of \$14.4 million (\$9.1 million in 2012, after the start of commercial operation on May 15). The production level is due mainly to better-than-average solar irradiation during the second and third quarters, which compensated for lower production levels in the first quarter caused by unusually large snowfalls and extreme cold that slowed the snow removal process.

The decrease in total assets since December 31, 2012, results mainly from depreciation of property, plant and equipment as well as amortization of intangible assets.

The decrease in total liabilities since December 31, 2012, results mainly from scheduled repayment of long-term debt.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Site Development Segment

For the three-month period ended September 30, 2013, site development expenses of \$1.0 million remained relatively stable compared with the same period last year. For the nine-month period ended September 30, 2013, site development expenses decreased from \$4.3 million to \$3.4 million, due mainly to the Corporation's operating a greater number of facilities in 2013 than in 2012, which resulted in a higher proportion of general and administrative expenses being allocated to the operating segment, and to lower prospective project expenses.

The increases in total assets and total liabilities since December 31, 2012, are attributable mainly to payments made for costs incurred for the construction of the Kwoiek Creek and Northwest Stave River projects and for the pre-construction activities of the Upper Lillooet River, Boulder Creek, Tretheway Creek, Big Silver Creek and Mesgi'g Ugju's'n Development Projects as well as investments in the Viger-Denonville joint venture in the form of an equity investment.

## QUARTERLY FINANCIAL INFORMATION

(in millions of dollars, unless otherwise stated)	Three-months ended			
	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012
Power generated (MWh)	706,496	792,541	386,171	525,123
Operating revenues	58.0	63.2	35.7	47.1
Adjusted EBITDA	46.7	51.3	25.4	34.2
Unrealized net (gain) loss on derivative financial instruments	(2.4)	(27.3)	(3.8)	(5.3)
Net earnings (loss)	11.1	31.0	(0.2)	(0.6)
Net earnings attributable to owners of the parent	10.8	28.3	2.8	1.8
Net earnings attributable to owners of the parent (\$ per share – basic and diluted)	0.09	0.28	0.01	0.01
Dividends declared on preferred shares	1.8	1.8	2.0	1.1
Dividends declared on common shares	13.8	13.7	13.6	13.6
Dividends declared on common shares (\$ per share)	0.145	0.145	0.145	0.145

(in millions of dollars, unless otherwise stated)	Three-months ended			
	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012	Dec. 31, 2011
Power generated (MWh)	559,384	694,661	319,341	398,383
Operating revenues	47.1	54.3	28.1	32.6
Adjusted EBITDA	36.7	44.6	18.3	21.4
Unrealized net (gain) loss on derivative financial instruments	(9.5)	27.1	(20.1)	19.0
Net (loss) earnings	(0.7)	(11.9)	7.8	(21.0)
Net (loss) earnings attributable to owners of the parent	(0.2)	(9.1)	8.9	(13.9)
Net (loss) earnings attributable to owners of the parent (\$ per share – basic and diluted)	(0.01)	(0.12)	0.10	(0.18)
Dividends declared on preferred shares	1.1	1.1	1.1	1.1
Dividends declared on common shares	13.5	11.8	11.8	11.8
Dividends declared on common shares (\$ per share)	0.145	0.145	0.145	0.145

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Comparing the results for the most recent quarters makes apparent the seasonality that is characteristic of the Corporation's assets, i.e. that the power generated, operating revenues and Adjusted EBITDA vary from quarter to quarter. As the Corporation's total average long-term consolidated production is 72% 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. Furthermore, solar irradiation is at its highest during the summer months and at its lowest during the winter months. However, premiums for the electricity generated during the coldest months of the year included in some PPAs of the Corporation's hydroelectric facilities attenuate this seasonality. The wind farms' production also partially compensates for this seasonality experienced by hydroelectric facilities, as wind regimes are generally best in the first quarter of a typical year.

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

## INVESTMENTS IN JOINT VENTURES

After applying IFRS 11, the Corporation's material joint ventures at the end of the reporting period were Umbata Falls, L.P. (49% interest) and Viger-Denonville, L.P. (50% interest).

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

### Electricity Production

	2013				2012			
	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
Three months ended September 30								
Umbata Falls	44,798	21,314	210%	84.33	10,679	21,314	50%	84.20
Nine months ended September 30								
Umbata Falls	103,055	77,304	133%	84.34	68,243	77,304	88%	84.19

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

2. Including payments received from the ecoENERGY Initiative.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Umbata Falls, L.P.

### Umbata Falls' Summary Statements of Earnings and Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Operating revenues	3,778	899	8,692	5,745
Operating and general and administrative expenses	191	183	558	555
Adjusted EBITDA	3,587	716	8,134	5,190
Finance costs	637	634	1,880	1,890
Other net revenues	(8)	(5)	(25)	(14)
Depreciation and amortization	1,006	1,006	3,018	3,019
Unrealized net (gain) loss on derivative financial instruments	(718)	219	(4,135)	216
Net earnings (loss) and comprehensive income (loss)	2,670	(1,138)	7,396	79

The increases in operating revenues and Adjusted EBITDA for the three- and nine-month periods ended September 30, 2013 are due to production generated by above-average water flows since the beginning of the year, compared with below-average water flows during the same periods last year. The unrealized net gains on derivative financial instruments recorded in the three- and nine-month periods ended September 30, 2013, are due to the increase in benchmark interest rates since the end of 2012, while an unrealized net loss on derivative financial instruments was recorded in the three- and nine-month periods of 2012 due to a decrease in benchmark interest rates during those periods.

### Umbata Falls' Summary Statements of Financial Position

	September 30, 2013	December 31, 2012
Current assets	3,975	2,801
Non-current assets	76,844	79,679
Current liabilities	48,280	2,382
Non-current liabilities	2,436	53,225
Shareholders' equity	30,103	26,873

The Umbata Falls loan has been recorded in the current portion of long-term debt in view of its July 2014 term maturity. Umbata Falls, L.P. expects to refinance the outstanding balance by that date. In addition, Umbata Falls, L.P. uses derivative financial instruments to manage its exposure to the risk of increasing interest rates on its debt financing and does not own or issue any Derivatives for speculation purposes. Interest-rate swaps totaling \$46.9 million used to hedge the interest rate on 100% of the Umbata Falls loan had a net negative value of \$3.6 million at September 30, 2013 (negative \$7.7 million at December 31, 2012). This favourable difference is due mainly to an increase in benchmark interest rates since the end of 2012. The estimated impact of a 0.1% interest rate increase would decrease the interest rate swap-related liability by \$0.4 million. Conversely, a 0.1% interest rate decrease would increase the interest rate swap-related liability by \$0.5 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Viger-Denonville, L.P.

### Viger-Denonville's Summary Statements of Earnings and Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Operating revenues	—	—	—	—
Operating and general and administrative expenses	2	2	6	7
Adjusted EBITDA	(2)	(2)	(6)	(7)
Finance costs	—	—	—	—
Other net revenues	(2,744)	(56)	(3,641)	(56)
Depreciation and amortization	1	—	2	—
Unrealized net loss (gain) on derivative financial instruments	3,725	(296)	1,837	(296)
Net earnings (loss) and comprehensive income (loss)	(984)	350	1,796	345

Other net revenues during the third quarter reflect a realized gain on derivative financial instruments of \$2.2 million, as discussed below. Other net revenues during the first nine months of 2013 also reflect a \$1.4 million gain on foreign exchange contracts that were used to secure the exchange rate on planned equipment purchases for the project. The unrealized net losses on derivative financial instruments recorded in the three- and nine-month periods ended September 30, 2013, stem from the reversal of the unrealized gain upon settlement of the bond forward contracts in the third quarter of 2013 and to an unrealized loss on the interest rate swap entered into on August 7, 2013, due to a decrease in the benchmark interest rate between then and September 30, 2013. This project is currently under construction and is expected to reach commercial operation before the end of 2013.

### Viger-Denonville's Summary Statements of Financial Position

	September 30, 2013	December 31, 2012
Current assets	7,716	4,791
Non-current assets	53,694	7,274
Current liabilities	8,101	200
Non-current liabilities	34,132	328
Shareholders' equity	19,177	11,537

The increase in balance sheet items is due to the ongoing construction activities for the Viger-Denonville wind project. The increase in shareholders' equity is due to the net earnings of \$1.8 million recognized in the first nine months of 2013 and to a \$5.5 million investment made by each of the partners in the joint venture during the second quarter of 2013, partly offset by a \$2.6 million reimbursement to the Corporation for equity investments made to the project in excess of its equity participation prior to closing the project financing.

On August 7, 2013, Viger-Denonville, L.P. settled the bond forward contracts simultaneously with the closing of the interest-swapped long-term financing for the project, which resulted in Viger-Denonville, L.P. recognizing a realized gain on derivative financial instruments of \$2.2 million during the third quarter. This gain results from the increase in benchmark interest rates between the date the bond forwards were entered into (December 2012 and February 2013) and the settlement date (August 2013) and compensates for the higher fixed interest rate on the Viger-Denonville loan for its 18-year term.

Viger-Denonville, L.P. uses derivative financial instruments to manage its exposure to the risk of increasing interest rates on its debt financing and to equipment purchases in a currency other than Canadian dollars; it does not own or issue any Derivatives for speculation purposes. During the third quarter, Viger-Denonville, L.P. settled bond forward contracts and entered into an interest rate swap contract of \$58.8 million to hedge the interest rate on 95% of its loan. The estimated impact of a 0.1% interest rate increase would decrease the interest rate swap-related liability by \$0.4 million. Conversely, a 0.1% interest rate decrease would increase the interest rate swap-related liability by \$0.5 million. The estimated impact of an increase in the Canadian dollar value of \$0.01 against €1.00 would decrease the forward foreign exchange-related asset by \$0.02 million. Conversely, a decrease of the Canadian dollar value of \$0.01 against €1.00 would increase the forward foreign exchange-related asset by \$0.02 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE A MINORITY INTEREST

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

### Harrison Hydro L.P. and Its Eight Subsidiaries

#### Harrison Hydro's Summary Statements of Earnings and Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Revenues	14,574	14,663	40,435	40,114
Adjusted EBITDA	12,158	11,550	33,389	33,121
Net earnings (loss) and comprehensive income (loss)	752	2,777	(2)	402
Net earnings (loss) and comprehensive income (loss) attributable to:				
Owners of the parent	239	1,267	(430)	(166)
Non-controlling interests	513	1,510	428	568
	752	2,777	(2)	402

The lower net earnings for the third quarter and the slight loss recognized in the nine-month period ended September 30, 2013, are due to higher inflation compensation interest on the real-return bonds for the six hydroelectric facilities ("Harrison Operating Facilities") resulting from inflation during these periods.

#### Harrison Hydro's Summary Statements of Financial Position

	September 30, 2013	December 31, 2012
Current assets	33,765	69,089
Non-current assets	667,197	680,279
Current liabilities	12,505	16,588
Non-current liabilities	461,800	459,221
Equity attributable to owners	134,820	158,706
Non-controlling interests	91,837	114,853

During the fourth quarter of 2012, Harrison Hydro initiated a distribution of \$46.9 million in the form of loans to its shareholders. In the second quarter of 2013, it declared a distribution that allowed these loans to be reimbursed by the shareholders, resulting in a decrease in current assets and a decrease in equity attributable to owners and non-controlling interests. The \$46.9 million outflow of funds from investing activities resulting from the loans was recorded in the fourth quarter of 2012.

#### Harrison Hydro's Summary Statements of Cash Flows

Nine months ended September 30	2013	2012
Net cash inflow from operating activities	5,931	13,855
Net cash outflow from financing activities	(5,306)	(5,060)
Net cash inflow from investing activities	4,845	38,163
Net increase in cash and cash equivalents	5,470	46,958

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Creek Power Inc. and Its Six Subsidiaries

### Creek Power's Summary Statements of Earnings and Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Revenues	1,246	1,172	2,114	1,901
Adjusted EBITDA	694	803	728	730
Net loss and comprehensive loss	(398)	(1,476)	(756)	(3,111)
Net loss and comprehensive loss attributable to:				
Owners of the parent	(248)	(917)	(474)	(2,170)
Non-controlling interest	(150)	(559)	(282)	(941)
	(398)	(1,476)	(756)	(3,111)

The lower net loss during the three- and nine-month periods ended September 30, 2013, is due to unrealized gains on derivative financial instruments resulting from the increase in benchmark interest rates since December 31, 2012, compared with unrealized losses on derivative financial instruments in 2012 resulting from a decrease in benchmark interest rates since December 31, 2011.

### Creek Power's Summary Statements of Financial Position

	September 30, 2013	December 31, 2012
Current assets	1,537	1,358
Non-current assets	49,865	40,010
Current liabilities	12,506	8,987
Non-current liabilities	51,123	43,852
Deficit attributable to owners	(11,941)	(11,467)
Non-controlling interest	(286)	(4)

The increase in balance sheet items is due mainly to pre-construction spending for the Upper Lillooet River and Boulder Creek projects.

### Creek Power's Summary Statements of Cash Flows

Nine months ended September 30	2013	2012
Net cash (outflow) inflow from operating activities	(421)	567
Net cash inflow from financing activities	9,351	1,876
Net cash outflow from investing activities	(9,374)	(2,509)
Net decrease in cash and cash equivalents	(444)	(66)



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Kwoiek Creek Resources L.P.

### Kwoiek Creek Resources's Summary Statements of Earnings and Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Revenues	—	—	—	—
Adjusted EBITDA	(3)	(3)	(8)	(7)
Net loss and comprehensive loss	(1)	(2,867)	(6)	(8,071)
Net loss and comprehensive loss attributable to:				
Owners of the parent	(1)	(1,433)	(3)	(4,033)
Non-controlling interest	—	(1,434)	(3)	(4,038)
	(1)	(2,867)	(6)	(8,071)

The net losses recorded for the three- and nine-month periods ended September 30, 2012, are due mainly to a \$14.1 million realized loss on derivative financial instruments, partly offset by an unrealized gain on derivative financial instruments of \$11.3 million for the three-month period and of \$6.1 million for the nine-month period.

### Kwoiek Creek Resources's Summary Statements of Financial Position

	September 30, 2013	December 31, 2012
Current assets	41,843	88,502
Non-current assets	167,698	113,796
Current liabilities	21,798	17,529
Non-current liabilities	202,404	199,424
Deficit attributable to owners	(7,530)	(7,527)
Non-controlling interests	(7,131)	(7,128)

The increase in balance sheet items is due mainly to the ongoing construction activities for the Kwoiek Creek project. The decrease in current assets reflect the drawings on restricted cash as costs are incurred.

### Kwoiek Creek Resources's Summary Statements of Cash Flows

Nine months ended September 30	2013	2012
Net cash outflow from operating activities	(5,799)	(13,586)
Net cash inflow from financing activities	2,915	183,404
Net cash inflow (outflow) from investing activities	1,016	(63,016)
Net (decrease) increase in cash and cash equivalents	(1,868)	106,802

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. During the reporting period, management made a number of estimates and assumptions pertaining primarily to the fair value calculation of the assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives and recoverability of property, plant and equipment and intangible assets, deferred income taxes as well as the fair value of financial assets and liabilities, including derivative financial instruments. These estimates and assumptions are based on current market conditions, management's planned course of action and assumptions about future business and economic conditions. Changes in the underlying assumptions and estimates could have a material impact on the reported amounts. These estimates are reviewed periodically. If adjustments prove necessary, they are recognized in earnings in the period in which they are made. Changes made during the third quarter ended September 30, 2013, are described in the "Accounting Changes" section. Other significant accounting policies are listed in Note 3 of the Corporation's audited consolidated financial statements for the year ended December 31, 2012.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## ACCOUNTING CHANGES

### Application of new and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures were issued including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. In the current period, the Corporation has applied these standards. The impact of the application of these standards is described below.

#### Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation- Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all of the three criteria, including (a) an investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns, must be met. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Much more guidance has been included in IFRS 10 to explain when an investor has control over an investee. In particular, detailed guidances has been established in IFRS 10 to explain when an investor that owns less than 50 per cent of the voting shares in an investee has control over the investee. For example, in assessing whether or not an investor with less than a majority of the voting rights in an investee has a sufficiently dominant voting interest to meet the power criterion, IFRS 10 requires the investor to take into account all relevant facts and circumstances, particularly the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders.

The application of IFRS 10 has not affected the accounting for the Corporation, as the directors concluded that all entities that were consolidated still met the criteria for the new definition of control and need to be consolidated.

#### Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non Monetary Contributions by Venturers*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, there are only two types of joint arrangement: joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 *Interests in Joint Ventures* had three types of joint arrangement: jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognizes and measures the assets and liabilities (and the related revenues and expenses) in relation to its interest in the arrangement in accordance with the applicable Standards.

Upon applying IFRS 11, the Corporation reviewed and assessed the legal form and terms of the contractual arrangements related to the Corporation's investments in joint arrangements. The application of IFRS 11 has changed the classification and subsequent accounting of the Corporation's investments in Umbata Falls, L.P. and Parc éolien communautaire Viger-Denonville, s.e.c. ("Viger-Denonville, L.P."), which were classified as jointly controlled entities under the previous standard and were accounted for using the proportionate consolidation method. Under IFRS 11, Umbata Falls, L.P. and Viger-Denonville, L.P. are treated as joint ventures and the Corporation's interests in them are required to be accounted for using the equity method.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The change in accounting of the Corporation's investment in Umbata Falls, L.P. and Viger-Denonville, L.P. has been applied in accordance with the relevant transitional provisions. The initial investment as at January 1, 2012, for the purposes of applying the equity method is measured as the aggregate of the carrying amounts of the assets and liabilities that the Corporation had previously proportionately consolidated. Such a change in accounting has affected the amounts reported in the Corporation's consolidated financial statements.

All comparative figures for the year ended December 31, 2012, and December 31, 2011, have been adjusted to reflect the presentation changes arising from application of IFRS 11.

## Impact of the application of IFRS 12

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. The application of IFRS 12 has resulted in more extensive disclosures appearing in notes 8, 16 and 18 of the condensed consolidated financial statements.

## Change in useful life for the amortization period of intangible assets

As of July 1, 2013, the Corporation changed the useful life for the amortization period for certain Quebec hydroelectric facilities. The estimated life, which was formerly equal to the first term of the respective Power Purchase Agreements ("PPAs") was increased by 20 to 25 years, which reflects the PPA's renewable rights periods. This change in accounting estimate arose from the Corporation's intention to exercise its option to renew its PPAs. This change in estimate was recorded prospectively. The estimated annual impact of this change in accounting estimate is a decrease of approximately \$3,656 in annual amortization expense for the next 12 months and will be declining in future periods. The impact of this change for the three-month period ended September 30, 2013 is a \$914 decrease in amortization expense.

## Intangible assets

Intangible assets consist of various permits, licenses and agreements. Intangibles assets with finite lives are amortized using the straight-line method over a period of 4 to 43 years ending on the maturity date of the permits, licenses or agreements of each facility. Intangibles assets with indefinite lives are not amortized but are tested for impairment annually.

## IFRIC 21 Levies

In May 2013, the IASB issued IFRIC 21 - Levies ("IFRIC 21"), an interpretation of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Corporation is currently evaluating the impact the final interpretation is expected to have on its consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

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

	Notes	Three months ended September 30		Nine months ended September 30	
		2013	2012	2013	2012
<b>Revenues</b>			(Note 2.2.1)		(Note 2.2.1)
Operating		58,039	47,109	156,894	129,538
<b>Expenses</b>					
Operating	5	8,185	7,453	22,902	19,587
General and administrative		2,395	2,124	8,321	7,796
Prospective project expenses		771	880	2,320	2,610
Earnings before finance costs, income taxes, depreciation, amortization, other net (revenues) expenses, share of (earnings) loss of joint ventures and unrealized net gain on derivative financial instruments		46,688	36,652	123,351	99,545
Finance costs	6	17,279	13,110	49,057	45,240
Other net (revenues) expenses	7	(158)	15,759	427	14,338
Earnings before income taxes, depreciation, amortization, share of (earnings) loss of joint ventures and unrealized net gain on derivative financial instruments		29,567	7,783	73,867	39,967
Depreciation		12,333	10,936	36,341	30,677
Amortization		4,760	5,308	15,665	15,747
Share of (earnings) loss of joint ventures	8	(816)	383	(4,522)	(211)
Unrealized net gain on derivative financial instruments		(2,404)	(9,521)	(33,560)	(2,515)
<b>Earnings (loss) before income taxes</b>		<b>15,694</b>	<b>677</b>	<b>59,943</b>	<b>(3,731)</b>
Provision (recovery) for income taxes :					
Current		917	606	2,575	1,556
Deferred		3,630	799	15,360	(499)
		4,547	1,405	17,935	1,057
<b>Net earnings (loss)</b>		<b>11,147</b>	<b>(728)</b>	<b>42,008</b>	<b>(4,788)</b>
Net earnings (loss) attributable to:					
Owners of the parent		10,786	(245)	41,885	(377)
Non-controlling interests		361	(483)	123	(4,411)
		11,147	(728)	42,008	(4,788)
Weighted average number of common shares outstanding (in 000)	9	94,922	89,936	94,405	84,188
Basic net earnings (loss) per share	9	0.09	(0.01)	0.38	(0.04)
Diluted weighted average number of common shares outstanding (in 000)	9	94,922	90,247	94,459	84,344
Diluted net earnings (loss) per share	9	0.09	(0.01)	0.38	(0.04)

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

# CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012 (Note 2.2.1)	2013	2012 (Note 2.2.1)
Net earnings (loss)	11,147	(728)	42,008	(4,788)
Other items of comprehensive income (loss) that could be reclassified to profit or loss:				
Foreign exchange (loss) gain on translation of a self-sustaining foreign subsidiary	(117)	(154)	162	(146)
Deferred income tax recovery (provision)	15	20	(21)	19
Foreign exchange gain (loss) on the designated portion of the US dollar denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary	125	171	(161)	157
Deferred income tax (provision) recovery	(15)	(22)	22	(20)
Total adjustments to net earnings (loss)	8	15	2	10
<b>Total comprehensive income (loss)</b>	<b>11,155</b>	<b>(713)</b>	<b>42,010</b>	<b>(4,778)</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Owners of the parent	10,794	(230)	41,887	(367)
Non-controlling interests	361	(483)	123	(4,411)
	11,155	(713)	42,010	(4,778)

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

# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

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

As at		September 30, 2013	December 31, 2012	January 1, 2012
	Notes		(Note 2.2.2)	(Note 2.2.3)
<b>Assets</b>				
Current assets				
Cash and cash equivalents		49,506	49,496	34,863
Restricted cash and short-term investments		57,625	87,811	53,415
Accounts receivable		35,318	50,062	36,558
Reserve accounts		1,783	1,816	—
Income tax receivable		9	443	1,664
Derivative financial instruments		1,568	1,693	1,791
Loans to related parties	17	576	23,444	—
Prepaid and others		7,295	4,715	3,977
		153,680	219,480	132,268
Reserve accounts		46,235	45,800	41,239
Property, plant and equipment	10	1,528,869	1,427,112	1,231,710
Intangible assets		457,981	429,424	429,512
Project development costs		117,972	103,529	97,241
Investments in joint ventures	8	24,338	18,935	14,499
Derivative financial instruments		5,564	6,698	8,248
Deferred tax assets		3,073	5,846	24,485
Goodwill		8,269	8,269	8,269
Other long-term assets		31,327	31,347	17,998
		2,377,308	2,296,440	2,005,469

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

# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

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

As at		September 30, 2013	December 31, 2012	January 1, 2012
	Notes		(Note 2.2.2)	(Note 2.2.3)
<b>Liabilities</b>				
<b>Current liabilities</b>				
		15,559	14,643	12,848
		44,471	41,253	26,559
		2,466	1,541	2,835
		14,267	17,198	19,060
	11	27,301	63,926	18,982
	12	243	—	983
		104,307	138,561	81,267
		14	1,668	2,081
		28,920	60,808	68,386
		2,935	12,899	41,267
	11	1,314,945	1,166,782	1,006,646
		79,786	79,655	79,490
	12	11,797	8,870	6,762
		162,117	139,265	140,454
		1,704,821	1,608,508	1,426,353
<b>Shareholders' equity</b>				
	13	4,749	120,500	1
		131,069	131,069	82,589
	13	784,482	656,281	656,281
		1,756	1,511	1,361
		1,340	1,340	1,340
		(335,443)	(330,621)	(277,083)
		243	241	228
		588,196	580,321	464,717
		84,291	107,611	114,399
		672,487	687,932	579,116
		2,377,308	2,296,440	2,005,469

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



# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

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

For the nine-month period ended September 30, 2013	Equity attributable to owners										
	Number of common shares (In 000's)	Common share capital account	Preferred shares	Contributed surplus from reduction of capital on common shares	Share-based payment	Equity portion of convertible debentures	Deficit	Accumulated other comprehensive income	Total	Non-controlling interests	Total shareholders' equity
Balance January 1, 2013	93,660	120,500	131,069	656,281	1,511	1,340	(330,621)	241	580,321	107,611	687,932
Net earnings							41,885		41,885	123	42,008
Other items of comprehensive income								2	2		2
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>41,885</b>	<b>2</b>	<b>41,887</b>	<b>123</b>	<b>42,010</b>
Common shares issued through dividend reinvestment plan	1,354	12,450							12,450		12,450
Reduction of capital on Common shares (Note 13)		(128,201)		128,201					—		—
Share-based payment					245				245		245
Business acquisitions (Note 4.1)										1	1
Distributions to non-controlling interests (Note 16)										(23,444)	(23,444)
Dividends declared on Common shares							(41,097)		(41,097)		(41,097)
Dividends declared on Preferred shares							(5,610)		(5,610)		(5,610)
<b>Balance September 30, 2013</b>	<b>95,014</b>	<b>4,749</b>	<b>131,069</b>	<b>784,482</b>	<b>1,756</b>	<b>1,340</b>	<b>(335,443)</b>	<b>243</b>	<b>588,196</b>	<b>84,291</b>	<b>672,487</b>

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

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

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

For the nine-month period ended September 30, 2012	Equity attributable to owners										
	Number of common shares (In 000's)	Common share capital account	Preferred shares	Contributed surplus from reduction of capital on common shares	Share- based payment	Equity portion of convertible debentures	Deficit	Accumulated other comprehensive income	Total	Non- controlling interests	Total shareholders' equity
Balance January 1, 2012	81,282	1	82,589	656,281	1,361	1,340	(277,083)	228	464,717	114,399	579,116
Net loss							(377)		(377)	(4,411)	(4,788)
Other items of comprehensive income								10	10		10
Total comprehensive (loss) income	—	—	—	—	—	—	(377)	10	(367)	(4,411)	(4,778)
Common shares issued on July 26, 2012 private placement	12,041	123,656							123,656		123,656
Issuance fees (Net of \$2,403 of deferred income taxes)		(6,839)							(6,839)		(6,839)
Shares options exercised	58	655			(148)				507		507
Share-based payment					279				279		279
Dividends declared on Common shares							(37,112)		(37,112)		(37,112)
Dividends declared on Preferred shares							(3,188)		(3,188)		(3,188)
Balance September 30, 2012	93,381	117,473	82,589	656,281	1,492	1,340	(317,760)	238	541,653	109,988	651,641

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

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

		Nine months ended September 30 2013	Nine months ended September 30 2012
	Notes		(Note 2.2.4)
<b>Operating activities</b>			
Net earnings (loss)		42,008	(4,788)
Items not affecting cash:			
Depreciation		36,341	30,677
Amortization		15,665	15,747
Share of earnings of joint ventures		(4,522)	(211)
Unrealized net gain on derivative financial instruments		(33,560)	(2,515)
Inflation compensation interest	6	2,120	1,704
Amortization of financing fees	6	678	505
Amortization of revaluation of long-term debt and convertible debentures	6	1,081	1,171
Accretion expenses on other liabilities	6	389	642
Share-based payment		245	279
Deferred income taxes		15,360	(499)
Effect of exchange rate fluctuations		204	(109)
Others		(41)	127
Interest on long-term debt and convertible debentures	6	44,495	41,218
Interest paid		(44,629)	(41,205)
Distributions received from joint ventures		2,041	955
Loss (gain) on contingent considerations	7	353	(357)
Contingent considerations paid		—	(983)
Provision for current income taxes		2,575	1,556
Net income taxes (paid) received		(1,226)	1,608
		79,577	45,522
Changes in non-cash operating working capital items	15	7,175	3,250
		86,752	48,772
<b>Financing activities</b>			
Dividends paid on Common shares		(28,451)	(35,358)
Dividends paid on Preferred shares		(4,892)	(3,188)
Increase of long-term debt		167,414	318,494
Repayment of long-term debt		(122,015)	(171,817)
Payment of deferred financing costs		(2,933)	(4,138)
Net proceeds from issuance of Common shares		—	114,414
Payment of issuance costs on preferred shares		(353)	—
Proceeds from exercise of share options		—	507
		8,770	218,914

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

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

		Nine months ended September 30 2013	Nine months ended September 30 2012
	Notes		(Note 2.2.4)
<b>Investing activities</b>			
Cash acquired on business acquisitions	4	1,885	—
Business acquisitions	4	(28,577)	—
Decrease (increase) of restricted cash and short-term investments		30,186	(65,494)
Short term loan		—	(1,000)
Loans to related parties	17	(576)	—
Net funds withdrawn from (invested into) the hydrology/ wind power reserve		808	(883)
Net funds invested into the major maintenance reserve		(762)	(181)
Additions to property, plant and equipment		(65,367)	(121,927)
Additions to intangible assets		(14,758)	(485)
Additions to project development costs		(15,078)	(3,334)
Investments in joint ventures		(2,922)	(2,100)
Additions to other long-term assets		(439)	(27,226)
Proceeds from disposal of property, plant and equipment		56	—
		(95,544)	(222,630)
Effects of exchange rate changes on cash and cash equivalents		32	(68)
Net increase in cash and cash equivalents		10	44,988
Cash and cash equivalents, beginning of period		49,496	34,863
<b>Cash and cash equivalents, end of period</b>		<b>49,506</b>	<b>79,851</b>
<i>Cash and cash equivalents is comprised of:</i>			
Cash		36,055	63,518
Short-term investments		13,451	16,333
		49,506	79,851

Additional information is presented in Note 15.

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## DESCRIPTION OF BUSINESS

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

These unaudited condensed consolidated financial statements were approved by the Board of Directors on November 5, 2013.

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

## 1. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"). The condensed consolidated financial statements are in compliance with IAS-34 Interim Financial Reporting. The same accounting policies and methods of application as described in the Corporation's latest annual report have been used except for the application of the new IFRS' and the modifications described in Notes 3.3 and 3.4. However, these condensed consolidated financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Corporation's latest annual report.

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

## 2. APPLICATION OF NEW AND REVISED IFRS

### 2.1 New and revised IFRSs affecting the reported financial performance and/or financial position in the current period and/or prior period

#### **Application of new and revised Standards on consolidation, joint arrangements, associates and disclosures**

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures were issued including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. In the current period, the Corporation has adopted these standards.

The impact of the application of these standards is set out below:

#### **Impact of the application of IFRS 10**

IFRS 10 replaces the sections of IAS 27 *Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation- Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all of the three criteria, including (a) an investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its involvement with the investee, and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns, must be met. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Much more guidance has been included in IFRS 10 to explain when an investor has control over an investee. In particular, detailed guidances has been established in IFRS 10 to explain when an investor that owns less than 50 per cent of the voting shares in an investee has control over the investee. For example, in assessing whether or not an investor with less than a majority of the voting rights in an investee has a sufficiently dominant voting interest to meet the power criterion,

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

IFRS 10 requires the investor to take into account all relevant facts and circumstances, particularly, the size of the investor's holding of voting rights relative to the size and dispersion of holdings of the other vote holders.

The application of IFRS 10 has not affected the accounting for the Corporation since the management concluded that all entities that were consolidated still met the criteria for the new definition of control and need to be consolidated.

## Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non Monetary Contributions by Venturers*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, there are only two types of joint arrangements - joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 *Interests in Joint Ventures* had three types of joint arrangements - jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognizes and measures the assets and liabilities (and the related revenues and expenses) in relation to its interest in the arrangement in accordance with the applicable standards.

Upon applying IFRS 11, the Corporation reviewed and assessed the legal form and terms of the contractual arrangements in relation to the Corporation's investments in joint arrangements. The application of IFRS 11 has changed the classification and subsequent accounting of the Corporation's investments in Umbata Falls, L.P. and Parc éolien communautaire Viger-Denonville, s.e.c. ("Viger-Denonville, L.P."), which were classified as jointly controlled entities under the previous standard and were accounted for using the proportionate consolidation method. Under IFRS 11, Umbata Falls, L.P. and Viger-Denonville, L.P. are treated as joint ventures and the Corporation's interests into them are required to be accounted for using the equity method.

The change in accounting of the Corporation's investment in Umbata Falls, L.P. and Viger-Denonville, L.P. has been applied in accordance with the relevant transitional provisions. The initial investment as at January 1, 2012 for the purposes of applying the equity method is measured as the aggregate of the carrying amounts of the assets and liabilities that the Corporation had previously proportionately consolidated. Such a change in accounting has affected the amounts reported in the Corporation's consolidated financial statements (see note 2.2).

## Impact of the application of IFRS 12

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. The application of IFRS 12 has resulted in more extensive disclosures appearing in notes 8, 16 and 18.

## IFRIC 21 - Levies

In May 2013, the IASB issued IFRIC 21 – Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The Corporation is currently evaluating the impact the final interpretation is expected to have on its consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 2.2 Additional IFRS information

### 2.2.1 Impact on statement of earnings for the three-month and the nine-month period ended September 30, 2012 of the application of IFRS 11:

	Three-month period ended September 30, 2012		
	As previously reported	IFRS 11 adjustments	As restated
<b>Revenues</b>			
Operating	47,549	(440)	47,109
<b>Expenses</b>			
Operating	7,511	(58)	7,453
General and administrative	2,152	(28)	2,124
Prospective project expenses	880	—	880
Earnings before finance costs, income taxes, depreciation, amortization, other net expenses, share of loss of joint ventures and unrealized net gain on derivative financial instruments	37,006	(354)	36,652
Finance costs	13,423	(313)	13,110
Other net expenses	15,729	30	15,759
Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and unrealized net gain on derivative financial instruments	7,854	(71)	7,783
Depreciation	11,261	(325)	10,936
Amortization	5,477	(169)	5,308
Share of loss of joint ventures	—	383	383
Unrealized net gain on derivative financial instruments	(9,561)	40	(9,521)
Earnings before income taxes	677	—	677
Provision for income taxes :			
Current	606	—	606
Deferred	799	—	799
	1,405	—	1,405
<b>Net loss</b>	<b>(728)</b>	<b>—</b>	<b>(728)</b>
Net loss attributable to:			
Owners of the parent	(245)	—	(245)
Non-controlling interests	(483)	—	(483)
	(728)	—	(728)



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 2.2.1 Impact on statement of earnings for the three-month and the nine-month period ended September 30, 2012 of the application of IFRS 11 (continued) :

	Nine-month period ended September 30, 2012		
	As previously reported	IFRS 11 adjustments	As restated
<b>Revenues</b>			
Operating	132,353	(2,815)	129,538
<b>Expenses</b>			
Operating	19,765	(178)	19,587
General and administrative	7,894	(98)	7,796
Prospective project expenses	2,610	—	2,610
Earnings before finance costs, income taxes, depreciation, amortization, other net expenses, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	102,084	(2,539)	99,545
Finance costs	46,166	(926)	45,240
Other net expenses	14,303	35	14,338
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	41,615	(1,648)	39,967
Depreciation	31,652	(975)	30,677
Amortization	16,251	(504)	15,747
Share of earnings of joint ventures	—	(211)	(211)
Unrealized net gain on derivative financial instruments	(2,557)	42	(2,515)
Loss before income taxes	(3,731)	—	(3,731)
Provision (recovery) for income taxes :			
Current	1,556	—	1,556
Deferred	(499)	—	(499)
	1,057	—	1,057
<b>Net loss</b>	<b>(4,788)</b>	<b>—</b>	<b>(4,788)</b>
Net loss attributable to:			
Owners of the parent	(377)	—	(377)
Non-controlling interests	(4,411)	—	(4,411)
	(4,788)	—	(4,788)

There has been no impact from the application of IFRS 11 to the comprehensive income.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 2.2.2 Impact on financial position as at December 31, 2012 of the application of IFRS 11

	As previously reported	IFRS 11 adjustments	As restated
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	52,048	(2,552)	49,496
Restricted cash and short-term investments	87,811	—	87,811
Accounts receivable	50,786	(724)	50,062
Reserve accounts	1,816	—	1,816
Income tax receivable	443	—	443
Derivative financial instruments	2,116	(423)	1,693
Loans to related parties	23,444	—	23,444
Prepaid and others	4,789	(74)	4,715
	223,253	(3,773)	219,480
Reserve accounts	46,933	(1,133)	45,800
Property, plant and equipment	1,453,944	(26,832)	1,427,112
Intangible assets	440,498	(11,074)	429,424
Project development costs	107,165	(3,636)	103,529
Investments in joint ventures	—	18,935	18,935
Derivative financial instruments	6,698	—	6,698
Deferred tax assets	5,846	—	5,846
Goodwill	8,269	—	8,269
Other long-term assets	31,347	—	31,347
	2,323,953	(27,513)	2,296,440

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 2.2.2 Impact on financial position as at December 31, 2012 of the application of IFRS 11 (continued)

	As previously reported	IFRS 11 adjustments	As restated
<b>Liabilities</b>			
Current liabilities			
Dividends payable to shareholders	14,643	—	14,643
Accounts payable and other payables	41,337	(84)	41,253
Income tax liabilities	1,541	—	1,541
Derivative financial instruments	17,855	(657)	17,198
Current portion of long-term debt	64,452	(526)	63,926
	139,828	(1,267)	138,561
Construction holdbacks	1,668	—	1,668
Derivative financial instruments	64,023	(3,215)	60,808
Accrual for acquisition of long-term assets	13,063	(164)	12,899
Long-term debt	1,189,649	(22,867)	1,166,782
Liability portion of convertible debentures	79,655	—	79,655
Other liabilities	8,870	—	8,870
Deferred tax liabilities	139,265	—	139,265
	1,636,021	(27,513)	1,608,508
<b>Shareholders' equity</b>			
Common share capital	120,500	—	120,500
Preferred shares	131,069	—	131,069
Contributed surplus from reduction of capital on common shares	656,281	—	656,281
Share-based payment	1,511	—	1,511
Equity portion of convertible debentures	1,340	—	1,340
Deficit	(330,621)	—	(330,621)
Accumulated other comprehensive income	241	—	241
Equity attributable to owners	580,321	—	580,321
Non-controlling interests	107,611	—	107,611
Total shareholders' equity	687,932	—	687,932
	2,323,953	(27,513)	2,296,440

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 2.2.3 Impact on financial position as at January 1, 2012 of the application of IFRS 11

	As previously reported	IFRS 11 adjustments	As restated
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	35,279	(416)	34,863
Restricted cash and short-term investments	53,415	—	53,415
Accounts receivable	36,894	(336)	36,558
Income tax receivable	1,664	—	1,664
Derivative financial instruments	1,791	—	1,791
Prepaid and others	4,074	(97)	3,977
	133,117	(849)	132,268
Reserve accounts	42,154	(915)	41,239
Property, plant and equipment	1,259,834	(28,124)	1,231,710
Intangible assets	441,262	(11,750)	429,512
Project development costs	98,042	(801)	97,241
Investments in joint ventures	—	14,499	14,499
Derivative financial instruments	8,248	—	8,248
Deferred tax assets	24,485	—	24,485
Goodwill	8,269	—	8,269
Other long-term assets	17,998	—	17,998
	2,033,409	(27,940)	2,005,469

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 2.2.3 Impact on financial position as at January 1, 2012 of the application of IFRS 11 (continued)

	As previously reported	IFRS 11 adjustments	As restated
<b>Liabilities</b>			
<b>Current liabilities</b>			
Dividends payable to shareholders	12,848	—	12,848
Accounts payable and other payables	26,616	(57)	26,559
Income tax liabilities	2,835	—	2,835
Derivative financial instruments	20,287	(1,227)	19,060
Current portion of long-term debt	19,475	(493)	18,982
Current portion of other liabilities	983	—	983
	83,044	(1,777)	81,267
Construction holdbacks	2,081	—	2,081
Derivative financial instruments	71,158	(2,772)	68,386
Accrual for acquisition of long-term assets	41,267	—	41,267
Long-term debt	1,030,037	(23,391)	1,006,646
Liability portion of convertible debentures	79,490	—	79,490
Other liabilities	6,762	—	6,762
Deferred tax liabilities	140,454	—	140,454
	1,454,293	(27,940)	1,426,353
<b>Shareholders' equity</b>			
Common share capital	1	—	1
Preferred shares	82,589	—	82,589
Contributed surplus from reduction of capital on common shares	656,281	—	656,281
Share-based payment	1,361	—	1,361
Equity portion of convertible debentures	1,340	—	1,340
Deficit	(277,083)	—	(277,083)
Accumulated other comprehensive income	228	—	228
Equity attributable to owners	464,717	—	464,717
Non-controlling interests	114,399	—	114,399
Total shareholders' equity	579,116	—	579,116
	2,033,409	(27,940)	2,005,469

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 2.2.4 Impact on statement of cash flows for the nine-month period ended September 30, 2012 of the application of IFRS 11

	As previously reported	IFRS 11 adjustments	As restated
Net cash inflow from operating activities	49,355	(1,538)	48,772
Net cash inflow from financing activities	218,547	367	218,914
Net cash outflow from investing activities	(222,926)	1,251	(222,630)
Effects of exchange rate changes on cash and cash equivalents	(68)	—	(68)
Net increase in cash and cash equivalents	44,908	80	44,988

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Investments in joint ventures

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

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

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

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

The Corporation discontinues the use of the equity method from the date when the investment ceases to be a joint venture. When the Corporation retains an interest in the former joint venture and the retained interest is a financial asset, the Corporation measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Corporation reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

## 3.2 Investments in joint operations

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

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

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

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

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

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

## 3.3 Change in useful life for the amortization period of intangible assets

As of July 1, 2013, the Corporation changed the useful life for the amortization period for certain Quebec hydroelectric facilities. The estimated useful life, which was formerly equal to the first term of the respective Power Purchase Agreements ("PPAs") was increased by 20 to 25 years, which reflects the PPA's renewable rights periods. This change in accounting estimate arose from the Corporation's intention to exercise its option to renew its PPAs. This change in estimate was recorded prospectively. The estimated annual impact of this change in accounting estimate is a decrease of approximately \$3,656 in annual amortization expense for the next 12 months and will be declining in future periods. The impact of this change for the three-month period ended September 30, 2013 is a \$914 decrease in amortization expense.

## 3.4 Intangible assets

Intangible assets consist of various permits, licenses and agreements. Intangibles assets with finite lives are amortized using the straight-line method over a period of 4 to 43 years ending on the maturity date of the permits, licenses or agreements of each facility. Intangibles assets with indefinite lives are not amortized but are tested for impairment annually.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 4. BUSINESS ACQUISITIONS

### 4.1 Acquisition of Magpie Limited Partnership

On July 25, 2013, the Corporation finalized the acquisition of 99.999% of the common units of the Magpie run-of-river hydroelectric facility located in Québec (the "Magpie Acquisition"). The Minganie Regional County Municipality holds 30% of the voting units as well as a convertible debenture and a non-interest bearing debenture. The convertible debenture entitles the municipality to a 30% interest in the facility upon conversion of the debenture on January 1, 2025. The Corporation has paid the purchase price of \$28,577.

All power generated from the facility is sold to Hydro Québec under a PPA expiring in 2032.

Additional cash flows generated from the assets acquired are expected to further increase the Corporation's liquidity and flexibility to fund the development of future projects. The acquisition of the Magpie facility added an additional net installed capacity of approximately 40.6 MW to the Corporation's portfolio of operational hydroelectric facilities.

The following table reflects the preliminary purchase price allocation:

Cash and cash equivalents	1,885
Accounts receivable	1,321
Prepaid and others	52
Reserve account	422
Property, plant and equipment	74,460
Intangible assets	29,443
Current liabilities	(1,203)
Long-term debt	(65,054)
Other long-term liabilities	(2,428)
Deferred income taxes	(10,320)
Non-controlling interests	(1)
<b>Net assets acquired</b>	<b>28,577</b>

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

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

If the acquisition had taken place on January 1, 2013, the consolidated revenues and earnings for the three-month period ended September 30, 2013 would have been \$58,621 and \$10,430 respectively and \$161,976 and \$42,021 respectively for the nine-month period ended September 30, 2013.

The amounts of revenues and net earnings of Magpie Limited Partnership since July 25, 2013 included in the consolidated statement of earnings are \$2,237 and \$740 respectively for the 68 days ended September 30, 2013.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 4.2 Acquisition of Brown Miller Power L.P.

The final valuation of the acquisition of Brown Miller Power L.P. has been made. The following table reflects the final purchase price allocation:

	Preliminary purchase price allocation	Subsequent Adjustments	Final purchase price allocation
Accounts receivable	429	—	429
Prepaid and others	153	—	153
Property, plant and equipment	64,391	(14,732)	49,659
Intangible assets	13,436	14,363	27,799
Current liabilities	(9)	—	(9)
Deferred income taxes	(9,765)	369	(9,396)
	68,635	—	68,635

## 5. OPERATING EXPENSES

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Salaries	665	601	2,055	1,933
Insurance	545	475	1,531	1,283
Operation and maintenance	3,880	3,046	10,796	8,536
Property taxes and royalties	3,095	3,331	8,520	7,835
	8,185	7,453	22,902	19,587

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

## 6. FINANCE COSTS

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Interest on long-term debt and on convertible debentures	15,557	13,978	44,495	41,218
Inflation compensation interest	936	(1,652)	2,120	1,704
Amortization of financing fees	216	197	678	505
Amortization of revaluation of long-term debt and convertible debentures	300	413	1,081	1,171
Accretion expenses on other liabilities	138	174	389	642
Others	132	—	294	—
	17,279	13,110	49,057	45,240

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 7. OTHER NET (REVENUES) EXPENSES

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Transaction costs	260	2,072	536	2,167
Realized loss on derivative financial instruments	—	14,127	3,259	14,127
Realized (gain) loss on foreign exchange	(94)	(130)	167	(130)
Loss (gain) on contingent considerations	353	—	353	(357)
Other net revenues	(677)	(310)	(1,888)	(699)
Compensation from contractor	—	—	—	(770)
Settlement of claims received in relation with an acquisition	—	—	(2,000)	—
	(158)	15,759	427	14,338

## 8. INVESTMENTS IN JOINT VENTURES

### 8.1 Details of material joint ventures

Details of the Corporation's material joint ventures at the end of the reporting period is as follows:

Name of joint venture	Principal activity	Place of creation and principal place of operation	Proportion of ownership interest and voting rights held by the Corporation	
			September 30, 2013	December 31, 2012
Umbata Falls, L.P.	Operate an hydroelectric facility	Ontario	49%	49%
Viger-Denonville, L.P.	Develop, construct, own and operate a wind farm	Québec	50%	50%

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

Summarized financial information in respect of the Corporation's material joint ventures is set out below. The summarized financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## Umbata Falls, L.P.

### Summary Statements of Financial Position

As at	September 30, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	2,023	1,254	73
Other current assets	1,952	1,547	822
<b>Current assets</b>	<b>3,975</b>	<b>2,801</b>	<b>895</b>
Non-current assets	76,844	79,679	83,244
Accounts payable and other payables	198	155	66
Other current liabilities	48,082	2,227	3,512
<b>Current liabilities</b>	<b>48,280</b>	<b>2,382</b>	<b>3,578</b>
Non-current liabilities	2,436	53,225	53,394

It is expected that the loan maturing in July 2014, included in other current liabilities, will be refinanced.

### Summary Statements of Earnings and Comprehensive Income

	Nine months ended September 30 2013	Nine months ended September 30 2012
Revenues	8,692	5,745
Operating, general and administrative expenses	558	555
	8,134	5,190
Finance costs	1,880	1,890
Other net revenues	(25)	(14)
Depreciation and amortization	3,018	3,019
Unrealized net (gain) loss on derivative financial instruments	(4,135)	216
<b>Net earnings and comprehensive income</b>	<b>7,396</b>	<b>79</b>

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	September 30, 2013	December 31, 2012	January 1, 2012
Net assets of the joint venture	30,103	26,873	27,167
Proportion of the Corporation's ownership interest in the joint venture	49%	49%	49%
Carrying amount of the Corporation's interest in the joint venture	14,750	13,167	13,311

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## Viger-Denonville, L.P.

### Summary Statements of Financial Position

As at	September 30, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	9	3,875	762
Other current assets	7,707	916	59
<b>Current assets</b>	<b>7,716</b>	<b>4,791</b>	<b>821</b>
Non-current assets	53,694	7,274	1,603
Accounts payable and other payables	1,275	17	48
Other current liabilities	6,826	183	—
<b>Current liabilities</b>	<b>8,101</b>	<b>200</b>	<b>48</b>
Non-current liabilities	34,132	328	—

### Summary Statements of Earnings and Comprehensive Income

	Nine months ended September 30 2013	Nine months ended September 30 2012
Revenue	—	—
Operating, general and administrative expenses	6	7
	(6)	(7)
Finance costs	—	—
Other net revenues	(3,641)	(56)
Depreciation and amortization	2	—
Unrealized net loss (gain) on derivative financial instruments	1,837	(296)
<b>Net earnings and comprehensive income</b>	<b>1,796</b>	<b>345</b>

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	September 30, 2013	December 31, 2012	January 1, 2012
Net assets of the joint venture	19,177	11,537	2,376
Proportion of the Corporation's ownership interest in the joint venture	50%	50%	50%
Carrying amount of the Corporation's interest in the joint venture	9,588	5,768	1,188

On August 7, 2013, Viger-Denonville, L.P. closed a \$61,700 non-recourse construction and term project financing. Following the start of the project's commercial operation, it will convert into an 18-year term loan. As at September 30, 2013, an amount of \$32,500 was drawn and carried a floating interest rate equal to the banker's acceptance rate plus an applicable margin for an all-in rate of 3.82%. Viger-Denonville, L.P. has also closed a short-term loan of \$5,490 carrying a floating interest rate at banker's acceptance rate plus an applicable margin for an all-in rate of 3.22% to finance the construction of the substation and collector system, for which it is entitled to be reimbursed by Hydro-

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Québec in 2014. As at September 30, 2013 this loan was completely used. These loans are secured by Viger-Denonville, L.P.'s assets with a carrying value of \$61,410 (the share of the Corporation is 50%).

Concurrent with the closing of the financing, Viger-Denonville, L.P. has settled the bond forward contracts used to hedge the interest rate on the debt and therefore protect the expected returns on the project, giving rise to a realized gain on derivative financial instruments of \$2,226 and partly offsetting the higher interest-rate on the project debt. Viger-Denonville, L.P. entered into an interest rate swap of \$58,520, maturing in 2031 and bearing an interest rate of 3.40%.

## 9. COMPUTATION OF EARNINGS AVAILABLE TO COMMON SHAREHOLDERS

The net earnings attributable to owners of the Corporation are adjusted for the dividends on the Preferred shares as follows:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Net earnings (loss) attributable to owners of the parent	10,786	(245)	41,885	(377)
Dividends declared on Preferred Shares	(1,781)	(1,063)	(5,610)	(3,188)
Net earnings (loss) available to common shareholders	9,005	(1,308)	36,275	(3,565)
Weighted average number of common shares (in 000)	94,922	89,936	94,405	84,188
Basic net earnings (loss) per share (\$)	0.09	(0.01)	0.38	(0.04)
Weighted average number of common shares (in 000)	94,922	89,936	94,405	84,188
Effect of dilutive elements on common shares (in 000) (a)	—	311	54	156
Diluted weighted average number of common shares (in 000)	94,922	90,247	94,459	84,344
Diluted net earnings (loss) per share (\$) (b)	0.09	(0.01)	0.38	(0.04)

- a. During the three-month period ended September 30, 2013, 2,736,684 of 2,736,684 stock options (940,000 of 2,461,060 as at September 30, 2012) and 7,558,684 shares which can be issued on conversion of convertible debentures (nil as at September 30, 2012) were excluded from the calculation of diluted weighted average number of shares outstanding as the exercise price was above the average market price of common shares.

During the nine-month period ended September 30, 2013, 2,073,420 of 2,736,684 stock options (940,000 of 2,461,060 as at September 30, 2012) and 7,558,684 shares which can be issued on conversion of convertible debentures (same as at September 30, 2012) were excluded from the calculation of diluted weighted average number of shares outstanding as the exercise price was above the average market price of common shares.

- b. During the three-month period ended September 30, 2012, 1,521,060 stock options and 7,558,684 shares potentially issued on conversion of convertible debentures were excluded from the calculation of diluted net loss per share as it was anti-dilutive due to a net loss available to common shareholders.

During the nine-month period ended September 30, 2012, 1,521,060 stock options were excluded from the calculation of diluted net loss per share as it was anti-dilutive due to a net loss available to common shareholders.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 10. PROPERTY, PLANT AND EQUIPMENT

	Land	Hydroelectric facilities	Wind farm facilities	Solar facility	Facilities under construction	Other equipments	Total
<b>Cost</b>							
As at January 1, 2013	2,105	920,369	370,819	124,133	140,901	6,126	1,564,453
Additions	18	4,129	1,018	100	72,461	545	78,271
Business acquisitions	—	59,606	—	—	—	122	59,728
Dispositions	—	—	—	—	—	(130)	(130)
Other changes	—	—	—	—	—	(51)	(51)
Net foreign exchange differences	3	188	—	—	—	5	196
<b>As at September 30, 2013</b>	<b>2,126</b>	<b>984,292</b>	<b>371,837</b>	<b>124,233</b>	<b>213,362</b>	<b>6,617</b>	<b>1,702,467</b>
<b>Accumulated depreciation</b>							
As at January 1, 2013	—	(83,609)	(47,255)	(3,965)	—	(2,512)	(137,341)
Depreciation	—	(17,666)	(13,168)	(4,462)	—	(1,045)	(36,341)
Dispositions	—	—	—	—	—	87	87
Other changes	—	—	—	—	—	51	51
Net foreign exchange differences	—	(56)	—	—	—	2	(54)
<b>As at September 30, 2013</b>	<b>—</b>	<b>(101,331)</b>	<b>(60,423)</b>	<b>(8,427)</b>	<b>—</b>	<b>(3,417)</b>	<b>(173,598)</b>
<b>Net value as at September 30, 2013</b>	<b>2,126</b>	<b>882,961</b>	<b>311,414</b>	<b>115,806</b>	<b>213,362</b>	<b>3,200</b>	<b>1,528,869</b>

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

Property, plant and equipment includes capitalized financing costs of \$21,244 as at September 30, 2013 (\$11,440 at December 31, 2012) incurred prior to their intended use.

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

The cost of facilities were reduced by investment tax credits of \$1,043 (\$472 as at December 31, 2012).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 11. LONG-TERM DEBT

### a. Revolving term credit facility

On June 17, 2013, the Corporation extended its \$425,000 revolving term credit facility with a new five year term ending in 2018. Terms and conditions remain unchanged and usage flexibility is enhanced.

### b. Carleton

On June 26, 2013, the Corporation closed a \$52,800 non-recourse term loan to refinance its ownership portion of the Carleton wind farm, located in Quebec, Canada. The loan consists of a 14-year term loan, amortized over a 14 year period which start on June 26, 2013. The term loan bears interest at banker's acceptance rate plus an applicable margin (rate of 3.28%). The term loan is repayable in quarterly instalments. The principal repayments are variable and are set at \$3,045 for the 12 months following refinancing.

### c. Northwest Stave River

On May 23, 2013, the Corporation closed a \$71,972 non-recourse construction and term project financing for the Northwest Stave River hydroelectric project currently under construction, located in British Columbia. The construction loan carries a fixed interest rate of 5.30%; it will convert in a 40-year term loan following the start of the project's commercial operating and will be amortized over a 35-year period starting in the sixth year. The loan is secured by Northwest Stave River L.P.'s assets with a carrying value of approximately \$83,500.

### d. Magpie Limited Partnership

As part of the Magpie Acquisition, the Corporation assumed a \$49,251 term loan, bearing interest at 6.36%, repayable in monthly blended payments of principal and interest totaling \$379 and maturing on December 1, 2031 and a \$1,188 bridge loan, bearing interest at 6.06%, repayable in monthly blended payments of principal and interest totaling \$27 and maturing on August 1, 2017. The term loan was accounted for at its fair market value of \$57,420 on the Magpie Acquisition for an effective rate of 4.37% and the bridge loan was accounted for at its fair market value of \$1,281 on the Magpie Acquisition for an effective rate of 2.33%.

The loans are secured by Magpie Limited Partnership's assets with a carrying value of approximately \$104,000.

As part of the Magpie Acquisition, the Corporation assumed a \$3,000 convertible debenture, bearing interest at 15.50%, maturing in 2033. The convertible debenture was accounted for at its fair market value of \$4,575 on the Magpie Acquisition for an effective rate of 7.66%. The convertible debenture entitles the municipality to a 30% interest in the facility upon conversion of the debenture on January 1, 2025.

As part of the Magpie Acquisition, the Corporation assumed a \$2,000 debenture, bearing no interest and repayable in yearly installments of \$400 and maturing on December 31, 2017. The debenture was accounted for at its fair market value of \$1,778 on the Magpie Acquisition for an effective rate of 5.30%.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 12. OTHER LIABILITIES

Other liabilities, including amounts shown in current liabilities, consist of contingent considerations, asset retirement obligations relating to the Corporation's wind farms and solar farm, and royalty obligation. Royalty obligation of the Magpie hydroelectric facility acquired in July 2013, represents the present value of a contractual stream of royalty payments to the Minganie Regional County Municipality.

	Contingent considerations	Asset retirement obligations	Royalty obligation	Total
<b>As at January 1, 2013</b>	2,775	6,095	—	8,870
Liability assumed as part of the business acquisition (note 4.1)	—	—	2,428	2,428
Accretion expense included in finance cost	175	197	17	389
Loss on contingent considerations	353	—	—	353
<b>As at September 30, 2013</b>	3,303	6,292	2,445	12,040
Current portion of other liabilities	—	—	(243)	(243)
Long-term portion of other liabilities	3,303	6,292	2,202	11,797

	Contingent considerations	Asset retirement obligations	Royalty obligation	Total
<b>As at January 1, 2012</b>	3,887	3,858	—	7,745
Liability recovered	(357)	—	—	(357)
Contingent considerations paid	(983)	—	—	(983)
Accretion expense included in finance cost	228	222	—	450
New obligations	—	2,015	—	2,015
<b>As at December 31, 2012</b>	2,775	6,095	—	8,870
Current portion of other liabilities	—	—	—	—
Long-term portion of other liabilities	2,775	6,095	—	8,870

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 13. SHAREHOLDERS' CAPITAL

### a. Reduction of the stated capital account of the common shares

Special resolutions to approve the reduction of the legal stated capital account maintained in respect of the common shares of the Corporation, without any payment or distribution to the shareholders were adopted on May 14, 2013. This resulted in a decrease of \$128,201 of the shareholders' capital account and an increase of \$128,201 of the contributed surplus from reduction of capital on common shares account.

### b. Changes to the Dividend Reinvestment Plan

In view of current market conditions, the Corporation has elected to eliminate the 2.50% discount applicable to the purchase price of shares issued to shareholders participating in the Dividend Reinvestment Plan. This change came into effect on August 8, 2013.

## 14. DIVIDENDS

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

Record date	Payment date	Dividends per common share (\$)	Dividend per Preferred Series A share (\$)	Dividend per Preferred Series C share (\$) <sup>1</sup>
12/31/2012	1/15/2013	0.1450	0.3125	—
3/28/2013	4/15/2013	0.1450	0.3125	0.492300
6/28/2013	7/15/2013	0.1450	0.3125	0.359375
9/30/2013	10/15/2013	0.1450	0.3125	0.359375
		0.5800	1.2500	1.211050

1. This initial dividend payment was higher to reflect dividends accruing since the closing date of the Series C Preferred Share offering of December 11, 2012. The regular quarterly dividend amount is \$0.359375.

## 15. ADDITIONAL INFORMATION TO THE CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine months ended September 30 2013	Nine months ended September 30 2012
Accounts receivable and income tax receivable	16,507	7,303
Prepaid and others	(2,528)	(1,763)
Accounts payable, other payables and income tax liabilities	(6,804)	(2,290)
	7,175	3,250

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## b. Additional information

	Nine months ended September 30 2013	Nine months ended September 30 2012
Interest paid (including \$9,517 capitalized interest (\$2,822 in 2012))	54,146	44,027
<i>Non-cash transactions</i>		
in unpaid property, plant and equipment	(2,092)	17,333
in unpaid development costs	(635)	216
in unpaid intangibles assets	(27)	1,175
in unpaid issuance costs of preferred shares	(353)	—
transfer from long-term assets to accounts receivable	—	14,543
in common shares issued through dividend reinvestment plan	(12,450)	—

## 16. SUBSIDIARIES

### 16.1 General information of subsidiaries

Details of the Corporation's material subsidiaries at the end of the reporting period are set out below.

Name of subsidiaries	Principal activity	Place of creation and operation	Proportion of ownership interest and voting rights held by the Corporation	
			September 30, 2013	December 31, 2012
As at				
Harrison Hydro L.P. and its 8 subsidiaries	Own and operate hydroelectric facilities	British Columbia	50.01%	50.01%
Creek Power Inc. and its 6 subsidiaries	Develop, construct, own and operate hydroelectric facilities	British Columbia	66.67%	66.67%
Kwoiek Creek Resources L.P. <sup>1</sup>	Develop, construct, own and operate an hydroelectric facility	British Columbia	50.00%	50.00%
Ashlu Creek Investments, L.P.	Own and operate an hydroelectric facility	British Columbia	100.00%	100.00%
Innergex L.P.	Own and operate hydroelectric facilities	Québec	100.00%	100.00%
Innergex GM, L.P.	Own and operate a wind facility	Québec	100.00%	100.00%
Stardale Solar L.P.	Own and operate a solar facility	Ontario	100.00%	100.00%

1. The proportion of ownership and proportion of voting rights held are the same except for Kwoiek Creek project where the Corporation owns more than 50% of the economic interest.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The Corporation has subsidiaries, the principal activities of which are summarized as follows:

Principal activity As at	Principal place of business	Number of subsidiaries	
		September 30, 2013	December 31, 2012
Own or operate hydroelectric facilities	Québec	7	5
	Ontario	4	4
	British Columbia	19	19
	United States	1	1
		31	29
Own or operate wind farm facilities	Québec	10	10
Own or operate a solar facility	Ontario	2	2
Develop or construct hydroelectric facilities	British Columbia	14	12
Holdings and others	Québec	8	6
	Ontario	3	2
	British Columbia	8	8
	United States	2	2
	Nova Scotia	2	2
		23	20
		80	73

## 16.2 Details of non-wholly-owned subsidiaries that have non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Corporation:

Name of subsidiaries	Place of creation and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Earnings (loss) allocated to non-controlling interests for the nine-month period ended		Accumulated non-controlling interests (deficit)	
		September 30, 2013	December 31, 2012	September 30, 2013	September 30, 2012	September 30, 2013	December 31, 2012
Harrison Hydro L.P. and its 8 subsidiaries	British Columbia	49.99%	49.99%	428	568	91,837	114,853
Creek Power Inc. and its 6 subsidiaries	British Columbia	33.33%	33.33%	(282)	(941)	(286)	(4)
Kwoiek Creek Resources, L.P. <sup>(1)</sup>	British Columbia	50.00%	50.00%	(3)	(4,038)	(7,131)	(7,128)
Others	Various	Various	Various	(20)	—	(129)	(110)

1. The proportion of ownership and proportion of voting rights held are the same except for Kwoiek Creek project where the Corporation owns more than 50% of the economic interest.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Summarized financial information in respect of each of the Corporation's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

## Harrison Hydro L.P. and its eight subsidiaries

As at	September 30, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	33,765	69,089
Non-current assets	667,197	680,279
Current liabilities	12,505	16,588
Non-current liabilities	461,800	459,221
Equity attributable to owners	134,820	158,706
Non-controlling interests	91,837	114,853

	Nine months ended September 30 2013	Nine months ended September 30 2012
<b>Summary Statements of Loss and Comprehensive Loss</b>		
Revenues	40,435	40,114
Expenses	(40,437)	(39,712)
Net (loss) earnings and comprehensive (loss) income	(2)	402
Net (loss) earnings and comprehensive (loss) income attributable to:		
Owners of the parent	(430)	(166)
Non-controlling interests	428	568
	(2)	402
<b>Distributions paid to non-controlling interests</b>	23,444	—
<b>Summary Statements of Cash Flows</b>		
Net cash inflow from operating activities	5,931	13,855
Net cash outflow from financing activities	(5,306)	(5,060)
Net cash inflow from investing activities	4,845	38,163
Net increase in cash and cash equivalents	5,470	46,958

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## Creek Power Inc. and its six subsidiaries

As at	September 30, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	1,537	1,358
Non-current assets	49,865	40,010
Current liabilities	12,506	8,987
Non-current liabilities	51,123	43,852
Deficit attributable to owners	(11,941)	(11,467)
Non-controlling interest deficit	(286)	(4)

	Nine months ended September 30 2013	Nine months ended September 30 2012
<b>Summary Statements of Loss and Comprehensive Loss</b>		
Revenues	2,114	1,901
Expenses	(2,870)	(5,012)
Net loss and comprehensive loss	(756)	(3,111)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(474)	(2,170)
Non-controlling interest	(282)	(941)
	(756)	(3,111)
<b>Summary Statements of Cash Flows</b>		
Net cash (outflow) inflow from operating activities	(421)	567
Net cash inflow from financing activities	9,351	1,876
Net cash outflow from investing activities	(9,374)	(2,509)
Net decrease in cash and cash equivalents	(444)	(66)

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## Kwoiek Creek Resources L.P.

As at	September 30, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	41,843	88,502
Non-current assets	167,698	113,796
Current liabilities	21,798	17,529
Non-current liabilities	202,404	199,424
Deficit attributable to owners	(7,530)	(7,527)
Non-controlling interest deficit	(7,131)	(7,128)

	Nine months ended September 30 2013	Nine months ended September 30 2012
<b>Summary Statements of Loss and Comprehensive Loss</b>		
Revenues	—	—
Expenses	(6)	(8,071)
Net loss and comprehensive loss	(6)	(8,071)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(3)	(4,033)
Non-controlling interest	(3)	(4,038)
	(6)	(8,071)
<b>Summary Statements of Cash Flows</b>		
Net cash outflow from operating activities	(5,799)	(13,586)
Net cash inflow from financing activities	2,915	183,404
Net cash inflow (outflow) from investing activities	1,016	(63,016)
Net (decrease) increase in cash and cash equivalents	(1,868)	106,802

### 16.3 Financial support to a structured entity

Based on the contractual arrangements between the Corporation and the other partner, the Corporation concluded that it has control over Kwoiek Creek Resources L.P.

The Corporation is responsible for financing approximately 20% of the capital costs and will loan such amount or invest in preferred units of Kwoiek Creek Resources L.P.

Kwoiek Creek Resources Inc., the other partner, can participate for an amount up to \$3,200 of subordinated debt or preferred units.

The Corporation invested a total of \$46,254 in Kwoiek Creek Resources L.P. under the form of subordinated debt and preferred units. This investment provides the Corporation with revenues under the form of interests and preferred distributions.

Interests or distributions on the aggregate subordinated debt and preferred units will subsequently be payable annually subject to the availability of gross revenues. The interests or distributions on preferred units are payable before making any distributions on the common units.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 17. RELATED PARTY TRANSACTIONS

In the fourth quarter of 2012, the Harrison Operating Facilities distributed \$46,900. The funds were distributed in the form of non-interest bearing loans to the Corporation and its partners. The loans of \$23,444 were presented as loans to partners as at December 31, 2012. These loans were reimbursed during the second quarter of 2013 directly from a distribution from the Harrison Operating Facilities and a corresponding decrease in non-controlling interests was recorded with no impact to cash flows.

In the second quarter of 2013, a loan was made to Viger-Denonville project until such time as the project-level financing was put in place. This loan bears interest at the same rate as the Corporation pays to its lenders on the revolving credit facility plus a margin. This loan was reimbursed during the third quarter of 2013.

In the third quarter of 2013, a new loan of \$576 was made to Viger-Denonville project. This loan will be reimbursed by Viger-Denonville L.P. upon it's next drawing on it's construction loan.

## 18. JOINT OPERATIONS

Name of entities	Principal activity	Place of creation and operation	Proportion of ownership interest and voting rights held by the Corporation	
			September 30, 2013	December 31, 2012
Innergex AAV, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Innergex BDS, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Innergex CAR, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Innergex GM, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Innergex MS, L.P. <sup>(1)</sup>	own and operate a wind farm facility	Quebec	100%	100%
Others	operate wind farm facilities	Quebec	38% to 50%	38% to 50%

(1). Each of the Limited Partnership owns a 38% ownership interest in the assets, liabilities, revenues and expenses and 50% voting rights of the joint operations.

## 19. FINANCIAL INSTRUMENTS

The Corporation has entered into new bond forward contracts for a notional amount of \$90,000 maturing in 2014 at a weighted average rate of 3.21%, to manage its risk on the projects of Upper Lillooet River and Tretheway Creek.

## 20. SEGMENTED INFORMATION

### Geographic segments

The Corporation has 22 hydroelectric facilities, five wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the three- and nine-month periods ended September 30, 2013, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$1,334 and \$2,808 (\$1,438 and \$2,989 in 2012), representing a contribution of 2.3% and 1.8% (3.1% and 2.3% in 2012) to the Corporation's consolidated operating revenues for these periods.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## Operating segments

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

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

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

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

The solar power generation segment was added following the beginning of commercial operation of the Stardale solar farm on May 15, 2012.

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Three-month period ended September 30, 2012					
Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Operating revenues	32,754	8,614	5,741	—	47,109
Expenses:					
Operating	5,498	1,833	122	—	7,453
General and administrative	1,329	443	109	243	2,124
Prospective project expenses	—	—	—	880	880
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net expenses, share of loss of joint ventures and unrealized net gain on derivative financial instruments	25,927	6,338	5,510	(1,123)	36,652
Finance costs					13,110
Other net expenses					15,759
Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and unrealized net gain on derivative financial instruments					7,783
Depreciation					10,936
Amortization					5,308
Share of loss of joint ventures					383
Unrealized net gain on derivative financial instruments					(9,521)
Earnings before income taxes					677

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

<b>Nine-month period ended September 30, 2013</b>					
<b>Operating segments</b>	<b>Hydroelectric generation</b>	<b>Wind power generation</b>	<b>Solar power generation</b>	<b>Site development</b>	<b>Total</b>
Operating revenues	103,736	38,791	14,367	—	156,894
Expenses:					
Operating	15,445	6,597	860	—	22,902
General and administrative	5,388	1,568	241	1,124	8,321
Prospective project expenses	—	—	—	2,320	2,320
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net expenses, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	82,903	30,626	13,266	(3,444)	123,351
Finance costs					49,057
Other net expenses					427
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments					73,867
Depreciation					36,341
Amortization					15,665
Share of earnings of joint ventures					(4,522)
Unrealized net gain on derivative financial instruments					(33,560)
Earnings before income taxes					59,943
<b>As at September 30, 2013</b>					
Goodwill	8,269	—	—	—	8,269
Total assets	1,380,129	390,570	130,225	476,384	2,377,308
Total liabilities	875,684	382,306	136,201	310,630	1,704,821
Additions of property, plant and equipment since the beginning of the year	63,753	1,018	100	73,128	137,999

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Nine-month period ended September 30, 2012					
Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Operating revenues	90,721	29,682	9,135	—	129,538
Expenses:					
Operating	13,884	5,540	163	—	19,587
General and administrative	4,161	1,828	138	1,669	7,796
Prospective project expenses	—	—	—	2,610	2,610
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net expenses, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	72,676	22,314	8,834	(4,279)	99,545
Finance costs					45,240
Other net expenses					14,338
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments					39,967
Depreciation					30,677
Amortization					15,747
Share of earnings of joint ventures					(211)
Unrealized net gain on derivative financial instruments					(2,515)
Loss before income taxes					(3,731)
<b>As at December 31, 2012</b>					
Goodwill	8,269	—	—	—	8,269
Total assets	1,281,758	423,634	139,222	451,826	2,296,440
Total liabilities	809,611	383,435	144,555	270,907	1,608,508
Additions of property, plant and equipment during the year	64,944	3,682	153	169,508	238,287

## 21. SUBSEQUENT EVENTS

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

Date of announcement	Record date	Payment date	Dividends per common share (\$)	Dividends per Series A Preferred Share (\$)	Dividends per Series C Preferred Share (\$)
11/05/2013	12/31/2013	01/15/2014	0.1450	0.3125	0.359375

# INFORMATION FOR INVESTORS

## Stock Exchange Listing

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

## Rating Agencies

Innergex Renewable Energy Inc. is rated BBB- by S&P and BB (high) by DBRS (unsolicited).  
Series A Preferred Shares of Innergex Renewable Energy Inc. are rated P-3 by S&P and Pfd-4 (high) by DBRS (unsolicited).  
Series C Preferred Shares of Innergex Renewable Energy Inc. are rated P-3 by S&P and Pfd-4 (high) by DBRS (unsolicited).

## Transfer Agent and Registrar

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

## Dividend Reinvestment Plan

Innergex Renewable Energy Inc. implemented a Dividend Reinvestment Plan (DRIP) for its common shareholders, which came into effect on August 31, 2012, and which enables eligible holders of common shares to acquire additional common shares of the Corporation by reinvesting all or part of their cash dividends.

For more information about the Corporation's DRIP, please visit our Website or contact the DRIP administrator, Computershare Trust Company of Canada.

## Independent Auditor

Deloitte s.e.n.c.r.l.

## Investor Relations

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

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

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