

**INNERGEX**

Renewable Energy.  
Sustainable Development.

# QUARTERLY REPORT 2013

FOR THE PERIOD ENDED MARCH 31, 2013

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

INNERGEX

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following is a discussion of the financial position, operating results and cash flows of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the three-month period ended March 31, 2013. This Management's Discussion and Analysis ("MD&A") reflects all material events up to May 14, 2013, the date on which this MD&A was approved by the Corporation's Board of Directors. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes for the three-month period ended March 31, 2013, and with the 2012 Annual Report of Innergex. Additional information relating to Innergex, including its Annual Information Form, can be found on the Canadian Securities Administrator's 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-month period ended March 31, 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.

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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 March 31, 2013, and that 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, projected revenues, project costs, adjusted EBITDA or results to inform investors and shareholders of the potential financial impact of development projects if and when they will reach commercial operation, recently announced acquisitions or expected results. Such information may not be appropriate for other purposes.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forward-Looking Information represent, as of the date of this MD&A, the estimates, forecasts, projections, expectations or opinions of the Corporation relating to future events or results. Forward-Looking Information involve known and unknown risks, uncertainties and other important factors which may cause the actual results or performance to be materially different from those expressed, implied or presented by the Forward-Looking 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 this MD&A under the "Risks and Uncertainties" 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 over-runs 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 energy production; dam safety; natural disasters and force majeure; foreign exchange fluctuations; sufficiency of insurance coverage; credit rating 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 projects; shared transmission and interconnection infrastructure and the introduction of solar photovoltaic power facility operation. The forward-looking information is based on certain key 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.

## OVERVIEW

### General

The Corporation is a developer, owner and operator of renewable power-generating facilities. The Corporation's shares are listed on the Toronto Stock Exchange ("TSX") under the symbols INE, INE.PR.A and INE.PR.C. The Corporation has been active in the Canadian renewable power industry since 1990, with a focus on hydroelectric, wind power and solar photovoltaic ("PV") projects that benefit from low operating and management costs and simple, proven technologies. The Corporation is rated BBB- by Standard and Poor's Rating Services ("S&P") and BB (high) by DBRS Limited ("DBRS").

### Portfolio of Assets

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

- 28 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 7.1 years. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 18.0 years;
- seven projects scheduled to begin commercial operation between 2013 and 2016 (the "Development Projects"). Construction is ongoing at three of the projects and is expected to begin on the remaining four projects in 2013; 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 submitted under a Request for Proposal ("RFP") or could be submitted under a Standing Offer Program ("SOP") or Feed-In Tariff Program ("FIT Program") (collectively the "Prospective Projects"). These projects are at various stages of development.

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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



Renewable Energy.  
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	Operating Facilities	Development Projects	Prospective Projects
<b>Hydro</b>			
Gross capacity:	408.5 MW	237.9 MW	1,000.0 MW
Net capacity <sup>1</sup> :	319.3 MW	177.4 MW	950.0 MW
<b>Wind</b>			
Gross capacity:	589.5 MW	24.6 MW	2,085.0 MW
Net capacity <sup>1</sup> :	224.0 MW	12.3 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:	1,031.2 MW	262.5 MW	3,125.0 MW
Net capacity <sup>1</sup> :	576.5 MW	189.7 MW	2,900.0 MW

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

## 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 intends to distribute an annual dividend of \$0.58 per common share payable quarterly. Its dividend policy is based on the long-term cash flow generating capacities of its Operating Facilities. Innergex's investments in the Development Projects and Prospective Projects are financed through 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") and operating revenues less operating expenses, general and administrative expenses and prospective project expenses ("Adjusted EBITDA"). 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.

## Seasonality

The amount of energy generated by the Operating Facilities is generally dependent on the availability of water flows, wind regime 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 22 hydroelectric facilities, which draw on 19 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:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Energy	LTA <sup>1</sup> (GWh and %) – Net Interest <sup>2</sup>								
	Q1		Q2		Q3		Q4		Total
HYDRO	249.4	14%	630.0	36%	506.7	29%	359.7	21%	1,745.8
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>470.4</b>	<b>19%</b>	<b>785.4</b>	<b>32%</b>	<b>632.3</b>	<b>26%</b>	<b>572.9</b>	<b>23%</b>	<b>2,461.0</b>

1. Long-term average for 2013 for the facilities in operation at March 31, 2013.

2. Net interest corresponds to the proportional share of the total electricity generation attributable to Innergex, including that accounted for using the equity method, based on its ownership interest in the facilities.

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

## ACCOUNTING CHANGES IMPACTING THE PRESENTATION OF RESULTS

### IFRS 11 – Joint arrangements

IFRS 11 deals with how a joint arrangement, of which two or more parties have joint control, should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. Joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting whereas jointly controlled entities 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. Application of IFRS 11 has changed the classification and subsequent accounting of the Corporation's investments in Umbata Falls and Viger Denonville, 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 and Viger Denonville are treated as joint ventures and the Corporation's interests into them are required to be accounted for using the equity method. 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.

### INVESTMENTS IN JOINT VENTURES

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

For the three-month periods ended March 31	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>
Umbata Falls	18,839	18,165	104%	84.38	16,669	18,165	92%	84.21

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' Summary Statements of Earnings and Comprehensive Income

For the three-month periods ended March 31	2013	2012
Operating revenues	1,590	1,404
Operating and general and administrative expenses	181	186
Adjusted EBITDA	1,409	1,218
Finance costs	611	630
Others	(8)	(1)
Depreciation and amortization	1,006	1,006
Unrealized net gain on derivative financial instruments	(460)	(1,850)
Net earnings and comprehensive income	260	1,433

## Umbata Falls' Summary Statements of Financial Position

	March 31, 2013	December 31, 2012
Current assets	1,716	2,801
Non-current assets	78,723	79,679
Current liabilities	2,327	2,382
Non-current liabilities	52,460	53,225

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

For the three-month periods ended March 31	2013	2012
Operating revenues	—	—
Operating and general and administrative expenses	2	—
Adjusted EBITDA	(2)	—
Finance costs	—	—
Others	—	—
Depreciation and amortization	—	—
Unrealized net loss on derivative financial instruments	504	—
Net loss and comprehensive loss	(506)	—

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

	March 31, 2013	December 31, 2012
Current assets	5,025	4,791
Non-current assets	8,125	7,274
Current liabilities	552	200
Non-current liabilities	118	328

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## QUARTERLY UPDATE

### Highlights

For the three-month periods ended March 31	2013	2012
Power generated (MWh)	386,171	319,341
Operating revenues	35,688	28,069
Adjusted EBITDA	25,403	18,289
Net (loss) earnings	(178)	7,805
Dividends declared on preferred shares	2,047	1,063
Dividends declared on common shares	13,625	11,786
Dividends declared on common shares (\$ per share)	0.1450	0.1450

For the three-month period ended March 31, 2013, the increases in the power generated, operating revenues and Adjusted EBITDA, which is detailed in the financial results table, are attributable mainly to the addition of the Stardale solar farm and of capacity at the Gros-Morne wind farm and to the acquisition of the Brown Lake and Miller Creek hydroelectric facilities.

The net loss in the first quarter of 2013, compared with net earnings for the first quarter in 2012, is attributable mainly to a lower unrealized net gain on derivative financial instruments in the three-month period ended March 31, 2013. The following table outlines the impact of the unrealized net gain on derivative financial instruments on the net (loss) earnings:

For the three-month periods ended March 31	2013	2012
Net (loss) earnings	(178)	7,805
Less: Unrealized net gain on derivative financial instruments	(3,838)	(20,099)
Plus: Deferred provision for income taxes related to unrealized net gain on derivative financial instruments	998	5,226
	(5,014)	(17,520)

Excluding the unrealized net gain on derivative financial instruments and the related deferred provision for income taxes, the loss for the three-month period ended March 31, 2013, would have been \$5.0 million (\$17.5 million in 2012).

### Corporation's Credit Ratings

In December 2012, S&P renewed its credit rating of BBB- with a Stable outlook for the Corporation and of P-3 for the Corporation's preferred shares.

In July 2012, the Corporation had requested a confirmation of its investment grade ratings from both its credit rating agencies. Both S&P and DBRS confirmed their investment grade ratings of BBB- and BBB (low), respectively. However, DBRS announced it had changed the Corporation's rating trend from Stable to Negative, citing as a main reason that the Corporation's consolidated debt-to-capital ratio (calculated using book value) was above 60%. In order to maintain its DBRS credit rating, the Corporation would need to significantly reduce the leverage on its future non-recourse project financings.

The leverage commonly used for non-recourse financings for new hydroelectric, wind, or solar projects typically ranges between 75% and 85% of the project's total costs. Leverage is determined primarily by the project's cash flow profile and amortized over the duration of the underlying PPA. Because the Corporation has a pool of young Operating Facilities and several Development Projects, its consolidated debt-to-capital ratio has been above 60% for the last few years and is expected to remain above this threshold for the next few years. Innergex considers its debt-to-capital ratio satisfactory and believes that significantly reducing it in order to maintain its DBRS credit rating would constitute a fundamental change in the Corporation's proven business model and would in fact prove detrimental to its competitiveness and its ability to create value for its shareholders. In light of their irreconcilable views on what constitutes an appropriate capital structure for Innergex's activities, the Corporation decided to terminate its agreement with DBRS, effective September 8, 2012.

Despite the termination, DBRS has continued to rate the Corporation and certain of its securities on an unsolicited basis. On March 25, 2013, using the same reasoning as described above, DBRS downgraded the Corporation's credit rating to BB (high) with a Stable trend and downgraded the preferred shares' credit rating to P-4 (high) also with a Stable trend.

There are no indications as to when DBRS might cease to provide such unsolicited ratings. Since September 2012, DBRS no longer has access to Innergex management or to non-public information, such as the Corporation's forecasts and budgets.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## DEVELOPMENT PROJECTS

The Corporation currently has seven projects that are expected to reach the commercial operation stage between 2013 and 2016.

### PROJECTS UNDER CONSTRUCTION

Project name and location	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 Mar 31, 2013 (\$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	119.5	18.2	14.8
Northwest Stave River	100.0	17.5	Q4 2013	61.9	40	91.4	53.5	7.4	5.9
<i>WIND (Québec)</i>									
Viger-Denonville	50.0	24.6	Q4 2013	67.6	20	36.6 <sup>3</sup>	3.8 <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 details.

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

### Hydro

#### **Kwoiek Creek**

The construction of this hydroelectric facility began in the last quarter of 2011. During the first quarter of 2013, the clearing for the transmission line was completed and 90% of the poles were installed; the intake construction and penstock installation were still under way. At the date of this MD&A, assembly and installation of the turbines and generators as well as work on the plant's electrical equipments were ongoing. The construction is progressing as scheduled and budgeted.

#### **Northwest Stave River**

The construction of this hydroelectric facility began in the last quarter of 2011. As planned, construction activities were halted for the winter period and resumed at the end of March 2013. At the date of this MD&A, the fish habitat compensation channel and civil engineering work at the powerhouse have been completed and the powerhouse superstructure is nearly complete. Current activities include penstock installation and intake and switchyard construction. The construction is progressing as scheduled and budgeted.

### Wind

#### **Viger-Denonville**

The construction of this wind farm began in the first quarter of 2013. Current activities include wood clearing, road construction and concrete pouring of the substation foundation. In April 2013, the Rivière-du-Loup RCM and Innergex executed a term sheet for the construction and long-term non-recourse project financing of the wind farm. The partners expect the financing to close during the summer of 2013. The construction of this facility is progressing as scheduled and budgeted.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## **PROJECTS UNDER PERMIT PHASE**

Project name and location	Ownership %	Gross installed capacity (MW)	Expected COD	Gross estimated LTA (GWh)	PPA term (years)	Total project costs	
						Estimated <sup>1</sup> (\$M)	As at Mar 31, 2013 (\$M)
<i>HYDRO (British Columbia)</i>							
Boulder Creek	66.7	25.3	2015	92.5	40	116.9	2.5
Tretheway Creek	100.0	23.2	2015	81.9	40	108.5	15.1
North Creek <sup>2</sup>	66.7	16.0	2016	59.7	40	72.0	0.1
Upper Lillooet	66.7	81.4	2016	334.0	40	317.6	8.1
Big Silver Creek	100.0	40.6	2016	139.8	40	191.8	28.2

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 details.

2. On March 14, 2013, the Company announced changes to the configuration of the Boulder Creek, North Creek and Upper Lillooet hydro projects, which included cancellation of the North Creek project subject to the consent from BC Hydro and which is still pending. The Corporation is considering whether to continue proceeding with a revised version of the North Creek project.

### **Hydro**

#### **Boulder Creek, North Creek, and Upper Lillooet**

In January 2013, an important milestone was reached when these projects received their Environmental Assessment Certificate from the province of British Columbia. Following receipt of proposals from civil works contractors and the Corporation's deciding to increase the installed capacity of the Upper Lillooet and Boulder Creek projects, a request for new pricing was made to some civil works contractors. The decision regarding the selection of turbine generator suppliers is pending. A limited notice to proceed has been issued to the transmission line contractor to move forward with the detailed design and survey layout for the transmission line. Current activities include ongoing consultation with stakeholders and applications for obtaining the relevant permits.

Discussions are ongoing with BC Hydro to obtain its consent to amend the PPAs to increase the installed capacity of the Boulder Creek and Upper Lillooet projects and to cancel the current version of the North Creek project. The Corporation still expects to start construction on the Boulder Creek and Upper Lillooet projects in 2013 and meet their original expected commercial operation dates.

#### **Tretheway Creek**

The Corporation is evaluating the proposals from civil works contractors, turbine and generator suppliers and transmission line contractors. Current activities also include hydrometric monitoring, environmental studies, consultation with the various stakeholders and applications for obtaining the relevant permits. Discussions are ongoing with BC Hydro to obtain its authorization to increase the installed capacity. The Corporation is moving ahead with some aspects of the design and geotechnical studies and expects to start construction on this project in 2013.

#### **Big Silver Creek**

At the date of this MD&A, proposals from civil works contractors, turbine and generator suppliers and transmission line contractors have been received and the Corporation is currently evaluating the proposals. Current activities also include hydrometric monitoring, consultation with the various stakeholders and applications for obtaining the relevant permits. The Corporation expects to start construction on this project in 2013.

## **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, SOPs or FIT Programs 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

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

## OPERATING RESULTS

The Corporation's operating results for the three-month period ended March 31, 2013, are compared with the operating results for the same period in 2012.

### Electricity Production

When evaluating its operating results, the Corporation compares actual electricity generation with a long-term average for each hydroelectric facility, wind farm and solar farm. These long-term averages are determined carefully and prudently to allow long-term forecasting of the expected generation for each of the Corporation's facilities. 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 the three-month period ended March 31, 2013, and the 2012 comparative figures.

For the three-month periods ended March 31	2013				2012			
	Production (MWh)	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>1</sup>	Production (MWh)	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>1</sup>
<i>HYDRO</i>								
Quebec	70,686	63,317	112%	109.30	67,205	63,317	106%	103.38
Ontario	25,542	24,294	105%	70.14	24,353	24,294	100%	73.81
British Columbia	76,203	144,997	53%	89.43	75,170	126,263	60%	93.02
United States	4,129	7,927	52%	58.75	7,638	7,927	96%	55.72
Subtotal	176,560	240,535	73%	93.88	174,366	221,801	79%	91.62
<i>WIND</i>								
Quebec	202,676	213,605	95%	87.77	144,975	172,731	84%	83.01
<i>SOLAR</i>								
Ontario	6,935	7,389	94%	420.00	—	—	—	—
<b>Total</b>	<b>386,171</b>	<b>461,529</b>	<b>84%</b>	<b>88.40</b>	<b>319,341</b>	<b>394,532</b>	<b>81%</b>	<b>87.81</b>

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

During the three-month period ended March 31, 2013, the Corporation's facilities produced 386 GWh, 16% less than the LTA of 462 GWh. This production level is due mainly to low water flows in British Columbia and in the United States, partly offset by better than anticipated water flows in Quebec and Ontario. Wind conditions were slightly lower than anticipated at all the wind farms except the Carleton wind farm. The Stardale solar farm produced less than its LTA due to unusually large snowfalls followed by the extreme cold experienced in January, which slowed the removal of snow from the solar panels.

The overall performance of the Corporation's facilities for the three-month period ended March 31, 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

For the three-month periods ended March 31	2013	2012
Operating revenues	35,688	28,069
Operating expenses	6,458	5,664
General and administrative expenses	3,002	3,033
Prospective project expenses	825	1,083
Adjusted EBITDA	25,403	18,289
Finance costs	12,952	13,936
Other net revenues	(2,373)	(599)
Depreciation and amortization	17,461	14,557
Share of loss (earnings) of joint ventures <sup>1</sup>	126	(702)
Unrealized net gain on derivative financial instruments	(3,838)	(20,099)
Provision for income taxes	1,253	3,391
Net (loss) earnings	(178)	7,805
Net (loss) earnings attributable to:		
Owners of the parent	2,797	8,923
Non-controlling interests	(2,975)	(1,118)
	(178)	7,805
Basic net earnings per share	0.01	0.10

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. See the sections "Accounting changes impacting the presentation of results" and "Investment in joint ventures" for more information.

## Revenues

For the three-month period ended March 31, 2013, the Corporation recorded operating revenues of \$35.7 million (\$28.1 million in 2012). This increase is due mainly to the additional revenues from the Stardale solar farm, additional capacity at the Gros-Morne wind farm and the acquisition of the Brown Lake and Miller Creek hydroelectric facilities.

## Expenses

Operating expenses consist primarily of the operators' salaries, insurance premiums, expenditures related to operation and maintenance and property taxes and royalties.

For the three-month period ended March 31, 2013, the Corporation recorded \$6.5 million in operating expenses (\$5.7 million in 2012). This increase is due mainly to the Corporation's operating a greater number of facilities in 2013 than in 2012 following the addition of the Stardale solar farm and additional capacity at the Gros-Morne wind farm and the acquisition of the Brown Lake and Miller Creek hydroelectric facilities.

General and administrative expenses totalled \$3.0 million for the three-month period ended March 31, 2013 (\$3.0 million in 2012).

Prospective project expenses include the costs incurred for the development of Prospective Projects. Prospective project expenses totalled \$0.8 million for the three-month period ended March 31, 2013 (\$1.1 million in 2012).

## Finance Costs

Finance costs include interest on long-term debt and convertible debentures, inflation compensation interest, amortization of financing fees, amortization of the revaluation of long-term debt and convertible debentures, accretion expense on asset retirement obligations and accretion expense on contingent considerations.

For the three-month period ended March 31, 2013, finance costs totalled \$13.0 million (\$13.9 million in 2012). This decrease is due mainly to a negative inflation compensation interest resulting from deflation, partly offset by the increase in the interest on long-term debt resulting from the Stardale loan, which was based on a floating rate in the first quarter of 2012, compared with a fixed rate for the same period in 2013.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

As at March 31, 2013, 95% of the Corporation's outstanding debt, including convertible debentures, was fixed or hedged against interest rate movements (87% as at March 31, 2012). The difference is due to the Stardale interest rate swaps, which became effective at the end of the third quarter of 2012.

The effective all-in interest rate on the Corporation's debt and convertible debentures was 5.58% as at March 31, 2013 (5.85% as at March 31, 2012). The decrease stems mainly from lower inflation compensation interest rates related to the real return bonds due to a lower inflation rate and the addition of the Kwoiek Creek loan, which bears a low fixed interest rate of 5.075%. These elements are partly offset by higher all-in interest rate on Stardale loan of 5.79%, which is now mostly hedged by an interest rate swap contract. Please see the "Derivative Financial Instruments and Risk Management" section for more information.

## **Other Net (Revenues) Expenses**

Other net (revenues) expenses include the transaction costs, realized loss (gain) on foreign exchange, gain on contingent considerations, settlement of claims received in relation with an acquisition and other net revenues.

For the three-month period ended March 31, 2013, other net revenues totalled \$2.4 million (\$0.6 million in 2012). This increase is due mainly to a \$2.0 million settlement of claims received in relation with an acquisition.

## **Depreciation and Amortization**

For the three-month period ended March 31, 2013, depreciation and amortization expenses totalled \$17.5 million (\$14.6 million in 2012). This increase is 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 and Miller Creek hydroelectric facilities.

## **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-month period ended March 31, 2013, the Corporation recorded a \$3.8 million unrealized net gain on derivative financial instruments due mainly to the increase in benchmark interest rates since the end of 2012. For the corresponding quarter of 2012, Innergex recorded an unrealized net gain on derivative financial instruments of \$20.1 million due to the increase in benchmark interest rates since December 31, 2011. In the upcoming months of 2013, the Corporation expects to settle the Northwest Stave River and Viger-Denonville bond forwards simultaneously with the closing of the fixed rate or interest swapped long-term financing, which will result in a realized gain or loss on derivative financial instruments.

## **Provision for Income Taxes**

For the three-month period ended March 31, 2013, the Corporation recorded current provision for income taxes of \$0.8 million (provision for income taxes of \$0.5 million in 2012) and deferred provision for income taxes of \$0.4 million (provision for income taxes of \$2.9 million in 2012). The difference in deferred provision for income taxes is due primarily to a lesser unrealized gain on derivative financial instruments recognized in the first quarter of 2013, compared with the comparative period in 2012.

## **Net Earnings (Loss)**

For the three-month period ended March 31, 2013, the Corporation recorded a net loss of \$0.2 million (basic and diluted net earnings of \$0.01 per share). For the corresponding period of 2012, Innergex recorded net earnings of \$7.8 million (basic and diluted net earnings of \$0.10 per share). The following two tables outline the main items that contributed to the net loss for the first quarter of 2013, compared with net earnings for the corresponding period in 2012:

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Main items – Positive impact	Variation	Explanation
Adjusted EBITDA	7,114	Due mainly to the addition of Stardale, the additional capacity at Gros-Morne and the acquisition of Brown Lake and Miller Creek.
Finance costs	(984)	Due mainly to lower inflation compensation interest, partly offset by the increase in the interest on long-term debt resulting from the Stardale loan.
Other net revenues	1,774	Due mainly to the \$2.0 million settlement of claims received in relation with an acquisition.
Provision for income taxes	(2,138)	Due mainly to a lesser unrealized gain on derivative financial instruments.
<hr/>		
Main items – Negative impact	Variation	Explanation
Depreciation and amortization	2,904	Due mainly to the larger asset base resulting from the addition of Stardale, additional turbines installed at Gros-Morne and the acquisition of Brown Lake and Miller Creek.
Unrealized net gain on derivative financial instruments	(16,261)	Due mainly to a larger increase in benchmark interest rates from the end of 2011 to the end of the first quarter of 2012 than from the end of 2012 to the end of the first quarter of 2013.

The basic and diluted per-share figures for the three-month period ended March 31, 2013, are based on a weighted average number of 93,913,389 and 94,026,704 common shares outstanding respectively. 1,263,000 stock options were non-dilutive during this period, as the average market price of the Corporation's common share was below the strike price. The other 1,473,684 stock options were dilutive in the per-share figure calculation, as the owners of the parent recognized net earnings and the average market price of the Corporation's common share was above the strike price. Convertible Debentures were non-dilutive, as the average market price 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 March 31, 2012, were based on a weighted average number of 81,282,460 and 81,432,823 common shares outstanding respectively. 1,034,000 stock options were non-dilutive during this period, as the average market price of the Corporation's common share was below the strike price. The other 1,643,444 stock options were dilutive in the per-share figure calculation, as the average market price of the Corporation's common share was above the strike price. Convertible Debentures were non-dilutive as the average market price was below the conversion price. A total of 7,558,684 common shares could potentially have been issued on conversion of the convertible debentures.

As at March 31, 2013, the Corporation had a total of 93,964,093 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 March 31, 2012, it had 81,282,460 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares and 2,677,444 stock options outstanding. As at the date of this MD&A, the Corporation had a total of 94,449,724 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 March 31, 2013, is attributable to the Dividend Reinvestment Plan ("DRIP").

## Non-controlling Interests

For the three-month period ended March 31, 2013, the Corporation allocated losses of \$3.0 million to non-controlling interests (losses of \$1.1 million 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. ("Cloudworks Acquisition"), the Fitzsimmons Creek Operating Facility and the Kwoiek Creek Development Project.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows from Operating Activities

For the three-month period ended March 31, 2013, cash flows generated by operating activities totalled \$12.2 million (\$9.4 million in 2012). This difference is due primarily to a \$7.1 million increase in Adjusted EBITDA, a \$1.8 million increase in other net revenues and a \$1.0 million decrease in net income taxes paid, partly offset by a negative variation of \$7.5 million in changes in non-cash operating working capital items and a \$0.9 million increase in interest paid. The variation in non-cash working capital items stems mainly from a decrease in accounts receivable for the three-month period ended March 31, 2013, compared with an increase for the same period in 2012, and a decrease in accounts payable for the first quarter of 2013, compared with an increase for the corresponding period in 2012.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Cash Flows from Financing Activities

For the three-month period ended March 31, 2013, cash flows used by financing activities totalled \$17.4 million (\$24.4 million generated in 2012). This results mainly from a \$43.1 million lower increase of long-term debt (net decrease of long-term debt of \$5.5 million for the three-month period ended March 31, 2013, compared with a net increase of \$37.2 million for the same period in 2012), partly offset by a \$1.2 million net decrease in dividends paid to preferred and common shareholders. The decrease in the total amount of dividends paid to common shareholders results from the implementation of the dividend reinvestment plan in August 2012.

## Use of Financing Proceeds

For the three-month periods ended March 31	2013	2012
Proceeds from issuance of long-term debt	11,999	55,130
Repayment of long-term debt	(17,431)	(17,656)
Payment of deferred financing costs	(42)	(264)
Payment of Series C Preferred Shares issuance costs	(351)	—
Net funds withdrawn from the reserves	1,227	1,523
Additions to property, plant and equipment	(37,069)	(49,699)
Additions to intangible assets	(27)	(335)
Additions to project development costs	(2,023)	(655)
Investments in joint ventures	(725)	(100)
Disposal of (addition to) other long-term assets	9	(47)
<b>Use of financing proceeds</b>	<b>(56,432)</b>	<b>(67,233)</b>
<b>Reduction of working capital</b>	<b>(44,433)</b>	<b>(12,103)</b>

During the three-month period ended March 31, 2013, the Corporation borrowed \$12.0 million and used \$44.4 million of its working capital to pay for the construction of Gros-Morne and the Kwoiek Creek and Northwest Stave River projects, to repay long-term debts and to reduce drawings under the revolving credit term facility. During the corresponding period of 2012, the Corporation borrowed \$55.1 million and used \$12.1 million of its working capital to pay for the construction of the Stardale and Kwoiek Creek projects and to repay Glen Miller long-term debt.

## Cash Flows from Investing Activities

For the three-month period ended March 31, 2013, cash flows used by investing activities amounted to \$19.0 million (\$4.6 million in 2012). During this period, additions to property, plant and equipment accounted for a \$37.1 million outflow (\$49.7 million in 2012) and additions to project development costs for a \$2.0 million outflow (\$0.7 million in 2012), partly offset by a decrease in restricted cash and short-term investments for a \$19.6 million inflow (\$44.7 million in 2012).

## Cash and Cash Equivalents

For the three-month period ended March 31, 2013, the Corporation used \$24.3 million in cash and cash equivalents (\$29.2 million generated in 2012) as a net result of its operating, financing and investing activities.

As at March 31, 2013, the Corporation had cash and cash equivalents amounting to \$25.2 million (\$64.0 million as at March 31, 2012).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## DIVIDENDS

The following dividends were declared by the Corporation:

For the three-month periods ended March 31	2013	2012
Dividends declared on common shares	13,625	11,786
Dividends declared on common shares (\$ per share)	0.1450	0.1450
Dividends declared on Series A Preferred Shares	1,063	1,063
Dividends declared on Series A Preferred Shares (\$ per share)	0.3125	0.3125
Dividends declared on Series C Preferred Shares	984	—
Dividends declared on Series C Preferred Shares (\$ per share)	0.4923	—

The following are the dividends that will be paid by the Corporation on July 15, 2013:

Date of announcement	Record date	Payment date	Dividends per common share (\$)	Dividends per Series A Preferred Share (\$)	Dividends per Series C Preferred Share (\$)
5/14/2013	6/28/2013	7/15/2013	0.1450	0.3125	0.359375

## FINANCIAL POSITION

### Assets

As at March 31, 2013, the Corporation had \$2.3 billion in total assets (same as at December 31, 2012). Significant variations were recognized in the following accounting items:

- 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 \$93.4 million as at March 31, 2013, due mainly to the lower cash amount maintained and the Kwoiek Creek loan, which funds have been received and are being used as construction progresses;
- a decrease in accounts receivable from \$50.1 million to \$44.9 million, as explained in the "Working Capital" section below;
- an increase in property, plant and equipment from \$1,427 million to \$1,440 million due mainly to the Development Projects under construction; and
- a decrease in intangible assets from \$429.4 million to \$424.0 million due mainly to amortization.

### Working Capital

As at March 31, 2013, working capital was positive at \$41.0 million with a working capital ratio of 1.32:1.00. 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 the preceding quarter is due mainly to decreases in cash and cash equivalents, restricted cash and short-term investments and accounts receivable, partly offset by a decrease in accounts payable and other payables.

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 credit term facility if necessary. As at March 31, 2013, the Corporation had drawn US\$13.9 million and \$188.0 million as cash advances, and \$21.5 million had been used for issuing letters of credit.

The restricted cash and short-term investments are related to the Harrison Operating facilities and to the Kwoiek Creek loan. As at March 31, 2013, restricted cash and short-term investments amounted to \$68.2 million, of which \$62.5 million was related to the Kwoiek Creek loan (\$87.8 million as at December 31, 2012, of which \$81.2 million was related to the Kwoiek Creek loan).

Accounts receivable decreased from \$50.1 million as at December 31, 2012, to \$44.9 million as at March 31, 2013. The decrease stems mainly from the collection of the commodity taxes receivables for the Gros-Morne wind farm.

In the fourth quarter of 2012, the parent of the Harrison Operating Facilities distributed \$46.9 million to its partners. The funds were distributed in the form of loans to the Corporation and its partners. As at March 31, 2013, the loans to partners amounted to \$23.4 million (same as at December 31, 2012). It is expected that during fiscal 2013, these loans will be reimbursed directly by means of a distribution from the parent of the Harrison Operating Facilities and that a corresponding decrease in non-controlling interests will be recorded with no impact on net earnings (loss) or cash flows.

Accounts payable and accrued liabilities decreased from \$41.3 million as at December 31, 2012, to \$33.1 million as at March 31, 2013, due mainly to payments related to the construction of the Kwoiek Creek and Northwest Stave River hydroelectric facilities.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Derivative financial instruments included in current liabilities decreased from \$17.2 million as at December 31, 2012, to \$16.4 million as at March 31, 2013, as a result of the increase in benchmark interest rates.

The current portion of long-term debt relates to the payments on the credit facilities and bonds of some Operating Facilities (\$20.8 million) and to the Carleton loan (\$42.2 million). The decrease from \$63.9 million as at December 31, 2012, to \$63.0 million as at March 31, 2013, is due mainly to the scheduled principal payment on the Carleton loan. The Carleton loan is now accounted for as short-term debt given that it will mature in November 2013. The Corporation expects to refinance the outstanding balance by that date.

## Reserve Accounts

	March 31, 2013	December 31, 2012
Hydrology/wind reserve	43,957	45,291
Major maintenance reserve	2,446	2,325
Total	46,403	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 \$1,440 million in property, plant and equipment as at March 31, 2013, compared with \$1,427 million as at December 31, 2012. This increase stems mainly from Development Projects under construction, partly offset by depreciation.

## Intangible Assets

Intangible assets consist of various PPAs, permits and licences. They also include the extended warranty for the Carleton, Montagne Sèche and Gros-Morne wind farm turbines. The Corporation reported \$424.0 million in intangible assets as at March 31, 2013, a decrease from the \$429.4 million reported as at December 31, 2012. This decrease stems from amortization. Intangible assets, excluding \$4.9 million related to the wind farms' extended warranty, are amortized using the straight-line method over 11- to 40-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.

## 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 March 31, 2013, the Corporation had \$104.8 million in project development costs (\$103.5 million as at December 31, 2012). This increase is due to the Development Projects under permit phase.

## Goodwill

There were no changes during the first quarter of 2013.

# 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 for which construction has been completed but costs remained to be paid. As at March 31, 2013, the Corporation had \$2.5 million in accrual for acquisition of long-term assets (\$12.9 million as at December 31, 2012). This decrease stems mainly from drawings under the revolving term credit facility for Northwest Stave River.

## Long-Term Debt

As at March 31, 2013, long-term debt totalled 1,224 M\$ (1,231 M\$ as at December 31, 2012). The decrease in long-term debt results mainly from a decrease in drawings under the revolving credit term facility, a decrease in inflation compensation interest and scheduled long-term debt repayments of \$5.8 million, partly offset by a \$3.0 million increase in the term loan made by the Corporation's partner to Kwoiek Creek Resources Limited Partnership.

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.

## Convertible Debentures

There were no material changes during the first quarter of 2013.

## Preferred Shares

There were no material changes during the first quarter of 2013.

## 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.

Together, the bond forward and swap contracts allow the Corporation to eliminate the risk of interest rate increases in actual and planned long-term debt (\$486.8 million and \$40.0 million respectively). As at March 31, 2013, interest rate swaps related to outstanding debts combined with the \$686.0 million in existing fixed-rate debts and the \$79.7 million in convertible debentures mean that 95% of outstanding debts are protected from interest rate increases.

Derivatives had a net negative value of \$73.8 million at March 31, 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 bond forward contracts and interest rate swap-related liability by \$5.0 million. Conversely, a 0.1% interest-rate decrease would increase the bond forward contracts and interest rate swap-related liability by \$5.0 million.

As at March 31, 2013, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at \$8.0 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.

## Deferred Income Taxes

The tax impact of temporary differences may result in future tax assets or liabilities. As at March 31, 2013, the Corporation's net deferred tax liability was \$133.8 million (\$133.4 million as at December 31, 2012).

## Off-Balance-Sheet Arrangements

As at March 31, 2013, the Corporation had issued letters of credit totalling \$33.4 million to meet its obligations under its various PPAs and other agreements. Of this amount, \$21.5 million was issued under its revolving credit term facility and the remainder under the projects' non-recourse credit facilities. As at that date, Innergex had also issued a total of \$32.2 million in corporate guarantees to support the construction of the Gros-Morne and Viger-Denonville wind farms, the performance of the Brown Lake and Miller Creek hydroelectric facilities and some Derivatives.

## Shareholders' Equity

As at March 31, 2013, the shareholders' equity of the Corporation totalled \$675.2 million, including \$104.6 million of non-controlling interests, compared with \$687.9 million, including \$107.6 million of non-controlling interests, as at December 31, 2012. The decrease in total shareholders' equity stems mainly from dividends declared.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Contractual Obligations

There were no material changes during the first quarter of 2013.

## Contingencies

There were no material changes during the first quarter of 2013.

## SEGMENT INFORMATION

### Geographic Segments

As at March 31, 2013, the Corporation had interests in 21 hydroelectric facilities, five wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the three-month period ended March 31, 2013, operating revenues generated by the Horseshoe Bend hydroelectric facility in the United States totalled \$0.2 million (\$0.4 million in 2012), representing contributions of 1% (2% in 2012) to the Corporation's consolidated operating revenues for this period.

### Operating Segments

As at March 31, 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 analyses 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
For the three-month period ended March 31, 2013					
Power generated (GWh)	176,560	202,676	6,935	—	386,171
Operating revenues	16,575	16,200	2,913	—	35,688
Expenses:					
Operating expenses	4,077	2,070	311	—	6,458
General and administrative expenses	1,848	595	118	441	3,002
Prospective project expenses	—	—	—	825	825
Adjusted EBITDA	10,650	13,535	2,484	(1,266)	25,403
For the three-month period ended March 31, 2012					
Power generated (GWh)	174,366	144,975	—	—	319,341
Operating revenues	16,035	12,034	—	—	28,069
Expenses:					
Operating expenses	3,725	1,939	—	—	5,664
General and administrative expenses	1,350	796	—	887	3,033
Prospective project expenses	—	—	—	1,083	1,083
Adjusted EBITDA	10,960	9,299	—	(1,970)	18,289

# 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
As at March 31, 2013					
Goodwill	8,269	—	—	—	8,269
Total assets	1,262,154	423,766	137,759	430,761	2,254,440
Total liabilities	797,805	378,154	143,166	260,128	1,579,253
Acquisition of property, plant and equipment since the beginning of the year	84	242	—	24,817	25,143
As at December 31, 2012					
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	612	3,682	153	169,449	173,896

## Hydroelectric Generation Segment

For the three-month periods ended March 31, 2013, and March 31, 2012, this segment produced 27% and 21% less power than the LTA respectively, resulting in operating revenues of \$16.6 million and \$16.0 million respectively. For both periods, the production level was due mainly to lower than anticipated water flows at the British Columbia facilities. The increase in operating revenues stems mainly from the acquisition of the Brown Lake and Miller Creek facilities.

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

The decrease in total liabilities since December 31, 2012, is attributable mainly to scheduled repayment of long-term debt and a decrease in the inflation compensation interest.

## Wind Power Generation Segment

For the three-month period ended March 31, 2013, the wind power generation segment produced 5% less than the LTA, resulting in operating revenues of \$16.2 million. The production level is due mainly to lower than anticipated wind conditions at all wind farms, except the Carleton wind farm.

For the three-month period ended March 31, 2012, the wind power generation segment produced 16% less than the LTA due to the 42-day period during which the Gros-Morne wind farm was halted and to the lower than anticipated wind conditions at all wind farms except Baie-des-Sables, resulting in operating revenues of \$12.0 million. The increases in production generation and operating revenues stems mainly from the additional capacity at the Gros-Morne wind farm.

Total assets have not varied significantly since December 31, 2012.

The 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.

## Solar Power Generation Segment

This new segment was added after the start of commercial operation of the Stardale solar farm on May 15, 2012. For the three-month period ended March 31, 2013, the solar power generation segment produced 6% less than expected, resulting in operating revenues of \$2.9 million. The production level is due mainly to unusually large snowfalls followed by the extreme cold experienced in January, which slowed snow removal from the solar panels.

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 March 31, 2013, the decrease in general and administrative expenses is due mainly to the Corporation's operating a greater number of facilities in 2013 than in 2012, resulting in a higher proportion of these expenses in the operating segments.

The decreases in total assets and total liabilities since December 31, 2012 are attributable mainly to payments made in the first quarter of 2013 for costs incurred in 2012 for the construction of the Kwoiek Creek and Northwest Stave River projects.

## 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. Other significant accounting policies are listed in Note 3 of the Corporation's audited consolidated financial statements for the year ended December 31, 2012.

## ACCOUNTING CHANGES

### NEW AND REVISED IFRS 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 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## **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 L.P. ("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.

## **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 7, 12 and 13 of the condensed consolidated financial statements.

## **ADDITIONAL INFORMATION 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)

## QUARTERLY FINANCIAL INFORMATION

(in millions of dollars, unless otherwise stated)	For the three-month periods ended			
	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012
Power generated (MWh)	386,171	525,123	559,384	694,661
Operating revenues	35.7	47.1	47.1	54.3
Adjusted EBITDA	25.4	34.2	36.6	44.6
Unrealized net gain (loss) on derivative financial instruments	3.8	5.3	9.6	(27.1)
Net (loss) earnings	(0.2)	(0.6)	(0.7)	11.9
Net earnings (loss) attributable to owners of the parent	2.8	1.8	(0.2)	(9.1)
Net earnings (loss) attributable to owners of the parent (\$ per share – basic and diluted)	0.01	0.01	(0.01)	(0.12)
Dividends declared on preferred shares	2.0	1.1	1.1	1.1
Dividends declared on common shares	13.6	13.6	13.5	11.8
Dividends declared on common shares (\$ per share)	0.145	0.145	0.145	0.145

(in millions of dollars, unless otherwise stated)	For the three-month periods ended			
	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011
Power generated (MWh)	319,341	398,383	659,184	574,085
Operating revenues	28.1	32.6	49.9	42.0
Adjusted EBITDA	18.3	21.4	39.6	32.9
Unrealized net gain (loss) on derivative financial instruments	20.1	(19.0)	(38.1)	(10.2)
Net earnings (loss)	7.8	(21.0)	(21.6)	(6.8)
Net earnings (loss) attributable to owners of the parent	8.9	(13.9)	(26.2)	(6.5)
Net earnings (loss) attributable to owners of the parent (\$ per share – basic and diluted)	0.10	(0.18)	(0.34)	(0.09)
Dividends declared on preferred shares	1.1	1.1	1.1	1.1
Dividends declared on common shares	11.8	11.8	11.8	11.8
Dividends declared on common shares (\$ per share)	0.145	0.145	0.145	0.145

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 production is 71% 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 production of the wind farms also partially compensates for this seasonality experienced by hydroelectric facilities, as wind regimes are generally best in the first quarter of a typical year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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 or finance costs.

## **SUBSEQUENT EVENT**

### **Innergex's partner allocated 150 MW for a wind project**

On May 10, 2013, Innergex's partner, the Mi'gmawei Mawiomi, the Assembly of Mi'gmaq communities of Quebec, was allocated 150 MW by the Quebec government for its wind energy project in the Gaspé Peninsula, as part of the government's procurement of 800 MW in new wind energy capacity. This also includes 450 MW by requests for proposals targeting projects initiated by local communities or cooperatives, in partnership with private developers. Innergex has several wind projects in Quebec that it intends to submit under these requests for proposals. The Corporation is awaiting to know the details of the Quebec government's announcement to proceed.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## 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 at [www.innergex.com](http://www.innergex.com) 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 at [www.innergex.com](http://www.innergex.com) or contact:

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

Marie-Josée Privyk, CFA, SIPC  
Director – Investor Relations

# INNERGEX

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# CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

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

For the three-month periods ended	Notes	March 31, 2013	March 31, 2012 (Note 2.2.1)
<b>Revenues</b>			
Operating		35,688	28,069
<b>Expenses</b>			
Operating	4	6,458	5,664
General and administrative		3,002	3,033
Prospective project expenses		825	1,083
Earnings before finance costs, income taxes, depreciation, amortization, other net revenues, share of loss (earnings) of joint ventures and unrealized net gain on derivative financial instruments		25,403	18,289
Finance costs	5	12,952	13,936
Other net revenues	6	(2,373)	(599)
Earnings before income taxes, depreciation, amortization, share of loss (earnings) of joint ventures and unrealized net gain on derivative financial instruments		14,824	4,952
Depreciation		12,009	9,368
Amortization		5,452	5,189
Share of loss (earnings) of joint ventures	7	126	(702)
Unrealized net gain on derivative financial instruments		(3,838)	(20,099)
Earnings before income taxes		1,075	11,196
Provision for income taxes :			
Current		804	472
Deferred		449	2,919
		1,253	3,391
<b>Net (loss) earnings</b>		(178)	7,805
Net (loss) earnings attributable to:			
Owners of the parent		2,797	8,923
Non-controlling interests		(2,975)	(1,118)
		(178)	7,805
Weighted average number of common shares outstanding (in 000)	8	93,913	81,282
Basic net earnings per share	8	0.01	0.10
Diluted weighted average number of common shares outstanding (in 000)	8	94,027	81,433
Diluted net earnings per share	8	0.01	0.10

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)

For the three-month periods ended	March 31, 2013	March 31, 2012 (Note 2.2.1)
Net (loss) earnings	(178)	7,805
Other items of comprehensive (loss) income that could be reclassified to profit or loss:		
Foreign exchange gain (loss) on translation of a self-sustaining foreign subsidiary	96	(71)
Deferred income tax (provision) recovery	(12)	9
Foreign exchange (loss) gain on the designated portion of the US dollar denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary	(99)	72
Deferred income tax recovery (provision)	13	(9)
Total adjustments to net (loss) earnings	(2)	1
<b>Total comprehensive (loss) income</b>	<b>(180)</b>	<b>7,806</b>
Total comprehensive (loss) income attributable to:		
Owners of the parent	2,795	8,924
Non-controlling interests	(2,975)	(1,118)
	(180)	7,806

*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	Notes	March 31, 2013	December 31, 2012 (Note 2.2.2)	January 1, 2012 (Note 2.2.3)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		25,234	49,496	34,863
Restricted cash and short-term investments		68,199	87,811	53,415
Accounts receivable		44,879	50,062	36,558
Reserve accounts		1,805	1,816	—
Income tax receivable		443	443	1,664
Derivative financial instruments		1,652	1,693	1,791
Loans to partners		23,444	23,444	—
Prepaid and others		5,137	4,715	3,977
		170,793	219,480	132,268
Reserve accounts		44,598	45,800	41,239
Property, plant and equipment	9	1,440,299	1,427,112	1,231,710
Intangible assets		424,000	429,424	429,512
Project development costs		104,770	103,529	97,241
Investments in joint ventures	7	18,809	18,935	14,499
Derivative financial instruments		6,326	6,698	8,248
Deferred tax assets		5,238	5,846	24,485
Goodwill		8,269	8,269	8,269
Other long-term assets		31,338	31,347	17,998
		2,254,440	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	Notes	March 31, 2013	December 31, 2012 (Note 2.2.2)	January 1, 2012 (Note 2.2.3)
<b>Liabilities</b>				
<b>Current liabilities</b>				
Dividends payable to shareholders		15,672	14,643	12,848
Accounts payable and other payables		33,118	41,253	26,559
Income tax liabilities		1,615	1,541	2,835
Derivative financial instruments		16,381	17,198	19,060
Current portion of long-term debt		63,013	63,926	18,982
Contingent considerations		—	—	983
		129,799	138,561	81,267
Construction holdbacks		712	1,668	2,081
Derivative financial instruments		57,374	60,808	68,386
Accrual for acquisition of long-term assets		2,539	12,899	41,267
Long-term debt		1,161,063	1,166,782	1,006,646
Liability portion of convertible debentures		79,698	79,655	79,490
Contingent considerations		2,832	2,775	2,904
Asset retirement obligations		6,161	6,095	3,858
Deferred tax liabilities		139,075	139,265	140,454
		1,579,253	1,608,508	1,426,353
<b>Shareholders' equity</b>				
Common share capital		123,521	120,500	1
Preferred shares		131,069	131,069	82,589
Contributed surplus from reduction of capital on common shares		656,281	656,281	656,281
Share-based payment		1,597	1,511	1,361
Equity portion of convertible debentures		1,340	1,340	1,340
Deficit		(343,496)	(330,621)	(277,083)
Accumulated other comprehensive income		239	241	228
Equity attributable to owners		570,551	580,321	464,717
Non-controlling interests		104,636	107,611	114,399
Total shareholders' equity		675,187	687,932	579,116
		2,254,440	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 three-month period ended March 31, 2013	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	Equity attributable to owners	Non-controlling interests	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 (loss)							2,797		2,797	(2,975)	(178)
Other items of comprehensive income (loss)								(2)	(2)		(2)
Total comprehensive income (loss)	—	—	—	—	—	—	2,797	(2)	2,795	(2,975)	(180)
Common shares issued through dividend reinvestment plan	304	3,021							3,021		3,021
Share-based payment					86				86		86
Dividends declared on Common shares							(13,625)		(13,625)		(13,625)
Dividends declared on Preferred shares							(2,047)		(2,047)		(2,047)
Balance March 31, 2013	93,964	123,521	131,069	656,281	1,597	1,340	(343,496)	239	570,551	104,636	675,187

*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 three-month period ended March 31, 2012	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	Equity attributable to owners	Non- controlling interests	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 earnings (loss)							8,923		8,923	(1,118)	7,805
Other items of comprehensive income								1	1		1
Total comprehensive income (loss)	—	—	—	—	—	—	8,923	1	8,924	(1,118)	7,806
Share-based payment					112				112		112
Dividends declared on Common shares							(11,786)		(11,786)		(11,786)
Dividends declared on Preferred shares							(1,063)		(1,063)		(1,063)
Balance March 31, 2012	81,282	1	82,589	656,281	1,473	1,340	(281,009)	229	460,904	113,281	574,185

*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)

For the three-month periods ended	Notes	March 31, 2013	March 31, 2012 (Note 2.2.4)
<b>Operating activities</b>			
Net (loss) earnings		(178)	7,805
Items not affecting cash:			
Depreciation		12,009	9,368
Amortization		5,452	5,189
Share of loss (earnings) of joint ventures		126	(702)
Unrealized net gain on derivative financial instruments		(3,838)	(20,099)
Inflation compensation interest	5	(2,124)	(225)
Amortization of financing fees	5	218	135
Amortization of revaluation of long-term debt and convertible debentures	5	417	409
Accretion expense on asset retirement obligations	5	66	109
Accretion expense on contingent considerations	5	57	58
Share-based payment		86	112
Deferred income taxes		449	2,919
Effect of exchange rate fluctuations		131	(90)
Interest on long-term debt and convertible debentures	5	14,318	13,450
Interest paid		(14,577)	(13,663)
Distributions received from joint ventures		725	—
Gain on contingent considerations		—	(358)
Provision for current income taxes		804	472
Net income taxes paid		(250)	(1,257)
		13,891	3,632
Changes in non-cash operating working capital items	11	(1,717)	5,792
		12,174	9,424
<b>Financing activities</b>			
Dividends paid on Common shares		(10,560)	(11,786)
Dividends paid on Preferred shares		(1,063)	(1,063)
Increase of long-term debt		11,999	55,130
Repayment of long-term debt		(17,431)	(17,656)
Payment of deferred financing costs		(42)	(264)
Payment of issuance costs on preferred shares		(351)	—
		(17,448)	24,361

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)

For the three-month periods ended	Notes	March 31, 2013	March 31, 2012 (Note 2.2.4)
<b>Investing activities</b>			
Decrease of restricted cash and short-term investments		19,612	44,717
Net funds withdrawn from the hydrology/wind power reserve		1,346	1,459
Net funds (invested into) withdrawn from the major maintenance reserve		(119)	64
Additions to property, plant and equipment		(37,069)	(49,699)
Additions to intangible assets		(27)	(335)
Additions to project development costs		(2,023)	(655)
Investments in joint ventures		(725)	(100)
Disposal of (addition to) other long-term assets		9	(47)
		(18,996)	(4,596)
Effects of exchange rate changes on cash and cash equivalents		8	(23)
Net (decrease) increase in cash and cash equivalents		(24,262)	29,166
Cash and cash equivalents, beginning of period		49,496	34,863
<b>Cash and cash equivalents, end of period</b>		<b>25,234</b>	<b>64,029</b>
<i>Cash and cash equivalents is comprised of:</i>			
Cash		12,584	51,335
Short-term investments		12,650	12,694
		25,234	64,029

Additional information is presented in Note 11.

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 May 14, 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 adoption of the new IFRS'. 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 described 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 *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,

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 L.P. ("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 7, 12 and 13.

# 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 period ended March 31, 2012 of the application of IFRS 11:

	As previously reported	IFRS 11 adjustments	As restated
<b>Revenues</b>			
Operating	28,757	(688)	28,069
<b>Expenses</b>			
Operating	5,724	(60)	5,664
General and administrative	3,067	(34)	3,033
Prospective project expenses	1,083	—	1,083
Earnings before finance costs, income taxes, depreciation, amortization, other net revenues, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	18,883	(594)	18,289
Finance costs	14,244	(308)	13,936
Other net revenues	(601)	2	(599)
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	5,240	(288)	4,952
Depreciation	9,693	(325)	9,368
Amortization	5,357	(168)	5,189
Share of earnings of joint ventures	—	(702)	(702)
Unrealized net gain on derivative financial instruments	(21,006)	907	(20,099)
Earnings before income taxes	11,196	—	11,196
Provision for income taxes :			
Current	472	—	472
Deferred	2,919	—	2,919
	3,391	—	3,391
<b>Net earnings</b>	7,805	—	7,805
Net earnings (loss) attributable to:			
Owners of the parent	8,923	—	8,923
Non-controlling interests	(1,118)	—	(1,118)
	7,805	—	7,805

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 partners	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
Contingent considerations	2,775	—	2,775
Asset retirement obligations	6,095	—	6,095
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>			
Current liabilities			
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
Contingent considerations	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
Contingent considerations	2,904	—	2,904
Asset retirement obligations	3,858	—	3,858
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 three-month period ended March 31, 2012 of the application of IFRS 11

	As previously reported	IFRS 11 adjustments	As restated
Net cash inflow from operating activities	9,610	(186)	9,424
Net cash inflow from financing activities	24,241	120	24,361
Net cash outflow from investing activities	(4,586)	(10)	(4,596)
Effects of exchange rate changes on cash and cash equivalents	(23)	—	(23)
Net increase in cash and cash equivalents	29,242	(76)	29,166

## 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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 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.

## 4. OPERATING EXPENSES

For the three-month periods ended	March 31, 2013	March 31, 2012
Salaries	649	632
Insurance	488	397
Operation and maintenance	3,068	2,775
Property taxes and royalties	2,253	1,860
	6,458	5,664

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 5. FINANCE COSTS

For the three-month periods ended	March 31, 2013	March 31, 2012
Interest on long-term debt and on convertible debentures	14,318	13,450
Inflation compensation interest	(2,124)	(225)
Amortization of financing fees	218	135
Amortization of revaluation of long-term debt and convertible debentures	417	409
Accretion expense on asset retirement obligations	66	109
Accretion expense on contingent considerations	57	58
	12,952	13,936

## 6. OTHER NET (REVENUES) EXPENSES

For the three-month periods ended	March 31, 2013	March 31, 2012
Transaction costs	111	—
Realized loss (gain) on foreign exchange	66	(92)
Gain on contingent considerations	—	(358)
Other net revenues	(550)	(149)
Settlement of claims received in relation with an acquisition	(2,000)	—
	(2,373)	(599)

## 7. INVESTMENTS IN JOINT VENTURES

### 7.1 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	
			March 31, 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	March 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	1,051	1,254	73
Other current assets	665	1,547	822
<b>Current assets</b>	<b>1,716</b>	<b>2,801</b>	<b>895</b>
Non-current assets	78,723	79,679	83,244
Accounts payable and other payables	56	155	66
Other current liabilities	2,271	2,227	3,512
<b>Current liabilities</b>	<b>2,327</b>	<b>2,382</b>	<b>3,578</b>
Long term debt	52,460	53,225	53,394

### Summary Statements of Earnings and Comprehensive Income

For the three-month periods ended	March 31, 2013	March 31, 2012
Revenues	1,590	1,404
Operating, general and administrative expenses	181	186
	<b>1,409</b>	<b>1,218</b>
Finance costs	611	630
Others net revenues	(8)	(1)
Depreciation and amortization	1,006	1,006
Unrealized net gain on derivative financial instruments	(460)	(1,850)
<b>Net earnings and comprehensive income</b>	<b>260</b>	<b>1,433</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	March 31, 2013	December 31, 2012	January 1, 2012
Net assets of the joint venture	25,652	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	12,569	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	March 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	4,264	3,875	762
Other current assets	761	916	59
<b>Current assets</b>	<b>5,025</b>	<b>4,791</b>	<b>821</b>
Non-current assets	8,125	7,274	1,603
Accounts payable and other payables	12	17	48
Other current liabilities	540	183	—
<b>Current liabilities</b>	<b>552</b>	<b>200</b>	<b>48</b>
Non-current liabilities	118	328	—

### Summary Statements of Loss and Comprehensive Loss

For the three-month periods ended	March 31, 2013	March 31, 2012
Revenue	—	—
Operating, general and administrative expenses	2	—
	(2)	—
Finance costs	—	—
Others net revenues	—	—
Depreciation and amortization	—	—
Unrealized net loss on derivative financial instruments	504	—
<b>Net loss and comprehensive loss</b>	<b>(506)</b>	<b>—</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	March 31, 2013	December 31, 2012	January 1, 2012
Net assets of the joint venture	12,480	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	6,240	5,768	1,188

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 8. 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:

	March 31, 2013	March 31, 2012
Net earnings attributable to owners of the parent	2,797	8,923
Dividends declared on Preferred Shares	(2,047)	(1,063)
Net earnings available to common shareholders	750	7,860
Weighted average number of common shares (in 000)	93,913	81,282
Basic net earnings per share (\$)	0.01	0.10
Weighted average number of common shares (in 000)	93,913	81,282
Effect of dilutive elements on common shares (in 000) (a)	114	151
Diluted weighted average number of common shares (in 000)	94,027	81,433
Diluted net earnings per share (\$)	0.01	0.10

- a. During the period, 1,263,000 of 2,736,684 stock options (1,034,000 of 2,677,444 as at March 31, 2012) and 7,558,684 shares which can be issued on conversion of convertible debentures (same as at March 31, 2012) were excluded in 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 year.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 9. 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	66	242		24,711	106	25,143
Dispositions						(47)	(47)
Net foreign exchange differences	2	112				2	116
<b>As at March 31, 2013</b>	<b>2,125</b>	<b>920,547</b>	<b>371,061</b>	<b>124,133</b>	<b>165,612</b>	<b>6,187</b>	<b>1,589,665</b>
<b>Accumulated depreciation</b>							
As at January 1, 2013	—	(83,609)	(47,255)	(3,965)	—	(2,512)	(137,341)
Depreciation		(5,779)	(4,396)	(1,487)		(347)	(12,009)
Dispositions						18	18
Net foreign exchange differences		(32)				(2)	(34)
<b>As at March 31, 2013</b>	<b>—</b>	<b>(89,420)</b>	<b>(51,651)</b>	<b>(5,452)</b>	<b>—</b>	<b>(2,843)</b>	<b>(149,366)</b>
<b>Net value as at March 31, 2013</b>	<b>2,125</b>	<b>831,127</b>	<b>319,410</b>	<b>118,681</b>	<b>165,612</b>	<b>3,344</b>	<b>1,440,299</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 \$14,415 as at March 31, 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 corporate financing are capitalized for the portion of the financing actually used for a specific property, plant and equipment.

The cost of the wind farm facilities under construction were reduced by investment tax credits of \$837 (\$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)

## 10. 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	0.4923
		0.2900	0.6250	0.4923

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.

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

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

For the three-month period ended	March 31, 2013	March 31, 2012
Accounts receivable	5,186	(4,995)
Prepaid and others	(421)	(329)
Accounts payable and other payables	(6,482)	11,116
	(1,717)	5,792

### b) Additional information

	March 31, 2013	March 31, 2012
Interest paid (including \$2,757 capitalized interest (\$1,270 in 2012))	17,334	14,933
<i>Non-cash transactions</i>		
in unpaid property, plant and equipment	(10,845)	(14,707)
in unpaid development costs	(782)	70
in unpaid intangibles assets	(27)	—
in unpaid issuance costs of preferred shares	(351)	—
in common shares issued through dividend reinvestment plan	(3,021)	—



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 12. SUBSIDIARIES

### 12.1 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	
			March 31, 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	Principal place of business	Number of subsidiaries	
		March 31, 2013	December 31, 2012
As at			
Own or operate hydroelectric facilities	Québec	5	5
	Ontario	4	4
	British Columbia	19	19
	United States	1	1
		29	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
		78	73

## 12.2 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 interest		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests (deficit)	
		March 31, 2013	December 31, 2012	March 31, 2013	March 31, 2012	March 31, 2013	December 31, 2012
Harrison Hydro L.P. and its 8 subsidiaries	British Columbia	49.99%	49.99%	(2,679)	(3,109)	112,174	114,853
Creek Power Inc. and its 6 subsidiaries	British Columbia	33.33%	33.33%	(284)	304	(288)	(4)
Kwoiek Creek Resources, L.P. <sup>(1)</sup>	British Columbia	50.00%	50.00%	(2)	1,687	(7,130)	(7,128)
Others	Various	Various	Various	(10)	—	(120)	(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	March 31, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	38,358	45,634
Non-current assets	699,371	703,734
Current liabilities	13,745	16,588
Non-current liabilities	456,069	459,221
Equity attributable to owners	155,741	158,706
Non-controlling interests	112,174	114,853
<hr/>		
For the three-month periods ended	March 31, 2013	March 31, 2012
<b>Summary Statements of Loss and Comprehensive Loss</b>		
Revenues	4,854	5,161
Expenses	(10,498)	(11,729)
Net loss and comprehensive loss	(5,644)	(6,568)
<hr/>		
Net loss and comprehensive loss attributable to:		
Owners of the parent	(2,965)	(3,457)
Non-controlling interests	(2,679)	(3,109)
	(5,644)	(6,566)
<hr/>		
<b>Summary Statements of Cash Flows</b>		
Net cash outflow from operating activities	(5,888)	(2,610)
Net cash outflow from financing activities	(1,371)	(1,298)
Net cash inflow from investing activities	482	43,908
Net (decrease) increase in cash and cash equivalents	(6,777)	40,000

# 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	March 31, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	852	1,358
Non-current assets	40,761	40,010
Current liabilities	9,876	8,987
Non-current liabilities	22,822	23,327
Equity attributable to owners	9,203	9,058
Non-controlling interest deficit	(288)	(4)
<b>For the three-month periods ended</b>		
	March 31, 2013	March 31, 2012
<b>Summary Statements of Loss and Comprehensive Loss</b>		
Revenues	10	8
Expenses	(840)	(292)
Net loss and comprehensive loss	(830)	(284)
Net (loss) earnings and comprehensive (loss) income attributable to:		
Owners of the parent	(546)	(588)
Non-controlling interest	(284)	304
	(830)	(284)
<b>Summary Statements of Cash Flows</b>		
Net cash outflow from operating activities	(277)	(375)
Net cash inflow from financing activities	628	233
Net cash outflow from investing activities	(593)	(163)
Net decrease in cash and cash equivalents	(242)	(305)

# 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	March 31, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	64,645	88,502
Non-current assets	138,081	113,796
Current liabilities	14,971	17,529
Non-current liabilities	191,373	188,384
Equity attributable to owners	3,512	3,513
Non-controlling interest deficit	(7,130)	(7,128)
<hr/>		
For the three-month periods ended	March 31, 2013	March 31, 2012
<b>Summary Statements of (Loss) earnings and Comprehensive (Loss) income</b>		
Revenues	—	—
(Expenses) other revenues	(3)	3,379
Net (loss) earnings and comprehensive (loss) income	(3)	3,379
<hr/>		
Net (loss) earnings and comprehensive (loss) income attributable to:		
Owners of the parent	(1)	1,692
Non-controlling interest	(2)	1,687
	(3)	3,379
<hr/>		
<b>Summary Statements of Cash Flows</b>		
Net cash outflow from operating activities	(4,611)	(1,332)
Net cash inflow from financing activities	2,989	16,540
Net cash outflow from investing activities	(3,766)	(15,235)
Net decrease in cash and cash equivalents	(5,388)	(27)

### 12.3 Financial support to a structured entity

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

The Corporation will be 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 will provide 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)

## 13. JOINT OPERATIONS

Name of entities	Principal activity	Place of creation and operation	Proportion of ownership interest and voting rights held by the Corporation	
			March 31, 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 14. SEGMENTED INFORMATION

### Geographic segments

The Corporation has 21 hydroelectric facilities, five wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the three-month period ended March 31, 2013, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$243 (\$426 in 2012), representing a contribution of 1% (2% in 2012) to the Corporation's consolidated operating revenues for these periods.

### Operating segments

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

Through its hydroelectric, wind power and solar power generation segments, the Corporation sells electricity produced by its hydroelectric, wind farm and solar facility to publicly owned utilities. Through its site development segment, it analyses 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## For the three-month period ended March 31, 2013

Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Operating revenues	16,575	16,200	2,913	—	35,688
Expenses:					
Operating	4,077	2,070	311	—	6,458
General and administrative	1,848	595	118	441	3,002
Prospective project expenses	—	—	—	825	825
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net revenues, share of loss of joint ventures and unrealized net gain on derivative financial instruments	10,650	13,535	2,484	(1,266)	25,403
Finance costs					12,952
Other net revenues					(2,373)
Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and unrealized net gain on derivative financial instruments					14,824
Depreciation					12,009
Amortization					5,452
Share of loss of joint ventures					126
Unrealized net gain on derivative financial instruments					(3,838)
Earnings before income taxes					1,075

## As at March 31, 2013

Goodwill	8,269	—	—	—	8,269
Total assets	1,262,154	423,766	137,759	430,761	2,254,440
Total liabilities	797,805	378,154	143,166	260,128	1,579,253
Additions of property, plant and equipment	84	242	—	24,817	25,143



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## For the three-month period ended March 31, 2012

Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Operating revenues	16,035	12,034	—	—	28,069
Expenses:					
Operating	3,725	1,939	—	—	5,664
General and administrative	1,350	796	—	887	3,033
Prospective project expenses	—	—	—	1,083	1,083
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	10,960	9,299	—	(1,970)	18,289
Finance costs					13,936
Other net revenues					(599)
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments					4,952
Depreciation					9,368
Amortization					5,189
Share of earnings of joint ventures					(702)
Unrealized net gain on derivative financial instruments					(20,099)
Earnings before income taxes					11,196

## As at December 31, 2012

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	612	3,682	153	169,449	173,896

## 15. 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 (\$)
05/14/2013	06/28/2013	07/15/2013	0.1450	0.3125	0.359375

### b) Innergex's partner allocated 150 MW for a wind project

On May 10, 2013, Innergex's partner, the Mi'gmawei Mawiomi, the Assembly of Mi'gmaq communities of Quebec, was allocated 150 MW by the Quebec government for its wind energy project in the Gaspé Peninsula, as part of the government's procurement of 800 MW in new wind energy capacity. This also includes 450 MW by requests for proposals targeting projects initiated by local communities or cooperatives, in partnership with private developers. Innergex has several wind projects in Quebec that it intends to submit under these requests for proposals. The Corporation is awaiting to know the details of the Quebec government's announcement to proceed.