# SHORT FORM PROSPECTUS

<u>*New Issue*</u> February 25, 2011

## INNERGEX RENEWABLE ENERGY INC.

INNERGEX

**$160,820,000**

**17,200,000 Subscription Receipts, each representing the right to receive one Common Share**

Pursuant to a share purchase agreement dated as of February 14, 2011 (the "**Share Purchase Agreement**"), Innergex Renewable Energy Inc. (the "**Corporation**") has agreed to acquire all of the issued and outstanding shares of Cloudworks Energy Inc. ("**Cloudworks**") for an aggregate consideration of (i) subject to certain adjustments, $185 million, approximately $145.7 million of which will be payable in cash and approximately $39.3 million of which will be payable by the issuance of common shares of the Corporation (each, a "**Common Share**") by way of private placement, and (ii) certain conditional deferred payments based on the performance of the Cloudworks portfolio of assets, subject to the fulfillment or waiver of certain customary closing conditions (the "**Acquisition**"). The closing of the Acquisition (the "**Acquisition Closing**") is expected to occur on or about March 15, 2011 (the "**Acquisition Closing Date**"). The Share Purchase Agreement provides that either the Corporation or the shareholders of Cloudworks (the "**Vendors**") can terminate the Share Purchase Agreement if the Acquisition Closing has not occurred by March 31, 2011 or such other date as agreed by the Corporation and the Cloudworks Principals (as defined below) (the "**Outside Date**"). See "Acquisition — Share Purchase Agreement". Headquartered in Vancouver, British Columbia, Cloudworks is an independent power producer that owns (i) an indirect interest of 50.01% in six operating run-of-river hydroelectric power facilities in British Columbia with a combined installed capacity of 150 MW, (ii) 100% of three development-stage run-of-river hydroelectric projects with a combined expected installed capacity of 75.6 MW and with long-term power purchase agreements and (iii) 100% of the prospective run-of-river hydroelectric projects that are in various stages of development, having a potential aggregate installed capacity of over 800 MW. See "Acquisition — Acquired Business".

This short form prospectus qualifies the distribution (the "**Offering**") of 17,200,000 subscription receipts (the "**Subscription Receipts**") of the Corporation. Each Subscription Receipt will entitle the holder thereof to receive, upon the Acquisition Closing, and without payment of additional consideration, one Common Share. This short form prospectus also qualifies the Common Shares issuable upon the exchange of the Subscription Receipts. The gross proceeds from the sale of the Subscription Receipts less 50% of the fee (the "**Underwriters' Fee**") payable to BMO Nesbitt Burns Inc. and National Bank Financial Inc. (the "**Co-Lead Underwriters**"), TD Securities Inc., RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc. and Desjardins Securities Inc. (together with the Co-Lead Underwriters, the "**Underwriters**"), that will be paid by the Corporation to the Underwriters on the closing date of the Offering (the "**Offering Closing Date**") out of the gross proceeds of the Offering (the "**Escrowed Funds**"), will be held by Computershare Trust Company of Canada, as escrow agent (the "**Escrow Agent**"), and invested in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments) pending the Acquisition Closing or the occurrence of a Termination Event (as defined below).

If the Acquisition Closing occurs prior to 5:00 p.m. (Montreal Time) on the Termination Date (as defined below), the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The holders of Subscription Receipts will receive as of 5:00 p.m. (Montreal Time) on the Acquisition Closing Date, without payment of additional consideration, one Common Share for each Subscription Receipt held, plus an amount, if any, equal to the dividends declared by the Corporation on the Common Shares to holders of record on a date during the period from the Offering Closing Date to the Acquisition Closing Date (the "**Dividend Equivalent Payment**"). The Corporation currently expects that the Offering Closing Date will occur prior to the Acquisition Closing Date. If, however, the Acquisition Closing Date occurs on or prior to the Offering Closing Date, the Corporation will issue Common Shares in lieu of Subscription Receipts to investors in the Offering and the distribution of such Common Shares will be qualified by this short form prospectus. Forthwith upon the Acquisition Closing and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with the interest earned thereon (subject to the satisfaction of the Dividend Equivalent Payment, if any), less 50% of the Underwriters' Fee, will be released to the Corporation, and 50% of the Underwriters' Fee will be remitted to the Co-Lead Underwriters on behalf of the Underwriters. The Corporation will use such amount to finance the cash portion of the purchase price of $145.7 million of the Acquisition and will use the balance of the proceeds of the Offering to pay related transaction costs and for general corporate purposes. See "Use of Proceeds".

In the event that (i) the Acquisition Closing does not occur prior to 5:00 p.m. (Montreal Time) on or before April 30, 2011 (or such other date as may be agreed between the Corporation and the Co-Lead Underwriters, such date to be no later than June 30, 2011), (ii) the Share Purchase Agreement is terminated at any earlier time, or (iii) the Corporation advises the Co-Lead Underwriters or announces to the public that it does not intend to proceed with the Acquisition (each a "**Termination Event**", and the date upon which such Termination Event occurs, the "**Termination Date**"), holders of Subscription Receipts shall, commencing on the second business day following the Termination Date, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned on the Escrowed Funds. In the event that the gross proceeds of the Offering are required to be remitted to purchasers of the Subscription Receipts, the Corporation has agreed to and undertaken to pay the Escrow Agent an amount equal to 50 % of the Underwriters' Fee such that 100% of the gross proceeds of the Offering would be returned to purchasers of Subscription Receipts, plus the interest earned on the Escrowed Funds.

**There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell the Subscription Receipts purchased under this short form prospectus. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and availability of trading prices, the liquidity of the Subscription Receipts and the extent of issuer regulation. See "Risk Factors".**

The Toronto Stock Exchange (the "**TSX**") has conditionally approved the listing of the Subscription Receipts and the Common Shares issuable pursuant to the terms of the Subscription Receipts on the TSX. Listing is subject to the Corporation fulfilling all of the listing requirements of the TSX. The currently outstanding Common Shares are listed and posted for trading on the TSX under the symbol "INE". On February 11, 2011, the last trading day prior to the announcement of the Offering, the closing price of a Common Share on the TSX was $9.71.

**Price: $9.35 per Subscription Receipt**

| | Price to the Public(1) | Underwriters' Fee(2) | Net Proceeds to the Corporation(3) |
|---|---|---|---|
| Per Subscription Receipt........................................ | $ 9.35 | $ 0.374 | $ 8.976 |
| Total(4)..................................................................... | $ 160,820,000 | $ 6,432,800 | $ 154,387,200 |

Notes:

(1) The price of the Subscription Receipts has been determined by negotiation between the Corporation and the Underwriters.

(2) The Underwriters' Fee is payable as follows: 50% upon the Offering Closing Date and 50% upon release of the Escrowed Funds to the Corporation. If the Acquisition is not completed, the Underwriters' Fee will be reduced to the amount payable upon the Offering Closing Date.

(3) After deducting the applicable Underwriters' fee but before deducting the expenses of the Offering, which are estimated to be approximately $1.57 million, and excluding interest, if any, on the Escrowed Funds.

(4) The Corporation has granted the Underwriters an option (the "**Over-Allotment Option**"), exercisable in whole or in part at any time not later than 30 days following the Offering Closing Date, to purchase up to an additional 550,000 Subscription Receipts at a price of $9.35 per Subscription Receipt on the same terms and conditions of the Offering to cover over-allotments, if any, and for market stabilization purposes. In the event that the Over-Allotment Option is exercised on or after the Acquisition Closing Date, the Corporation will issue the appropriate number of Common Shares in lieu of the Subscription Receipts. If the Over-Allotment Option is exercised in full, the total offering price to the public, the Underwriters' Fee and the net proceeds to the Corporation will be $165,962,500, $6,638,500 and $159,324,000, respectively. See "Plan of Distribution". This short form prospectus also qualifies the grant of the Over-Allotment Option, the distribution of the Subscription Receipts or Common Shares, as applicable, offered upon the exercise of the Over-Allotment Option, the Common Shares issued in exchange for the Subscription Receipts issued upon the exercise of the Over-Allotment Option, as well as the Common Shares issuable in lieu of the Subscription Receipts in the case that the Acquisition Closing Date occurs on or prior to the Offering Closing Date or the date of closing of the Over-Allotment Option. A purchaser who acquires Subscription Receipts forming part of the over-allotment position acquires such Subscription Receipts under this

short form prospectus regardless of whether the over-allotment position is filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”.

The following table sets forth the number of Subscription Receipts that may be offered by the Corporation pursuant to the Over-Allotment Option.

| Underwriters’ Position | Maximum size or number of securities held | Exercised periods | Exercise price |
|---|---|---|---|
| Subscription Receipt Over-Allotment Option | 550,000 Subscription Receipts | Commencing at closing of the Offering and ending 30 days following closing of the Offering | $9.35 per Subscription Receipt |

The Underwriters, as principals, conditionally offer the Subscription Receipts, subject to prior sale, if, as and when issued, sold and delivered by the Corporation to, and accepted by, the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters by McCarthy Tétrault LLP, as counsel to the Corporation, and Borden Ladner Gervais LLP, as counsel to the Underwriters.

Subject to applicable laws, the Underwriters may, in connection with the Offering, over-allot or effect transactions which stabilize or maintain the market price of the Subscription Receipts at levels other than those which might otherwise prevail on the open market. **After the Underwriters have made reasonable efforts to sell the Subscription Receipts at the offering prices referred to above, the Underwriters may offer the Subscription Receipts to the public at prices lower than the offering prices referred to above. Any such reduction will not affect the proceeds received by the Corporation. See “Plan of Distribution”.**

Subscriptions for Subscription Receipts will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Book-entry only certificates representing the Subscription Receipts sold outside of the United States will be issued in registered form to CDS Clearing and Depository Services Inc. (“**CDS**”) or its nominee as registered global securities and will be deposited with CDS on the Offering Closing Date, which is expected to occur on or about March 4, 2011 or such later date as the Corporation and the Underwriters may agree but in any event no later than March 31, 2011. Except for those Subscription Receipts sold within the United States and as otherwise stated herein, holders of beneficial interests in the Subscription Receipts will not be entitled to receive physical certificates representing their ownership. See “Plan of Distribution” and “Description of the Subscription Receipts — Book-Entry, Delivery and Form”.

The head and registered office of the Corporation is located at 1111 Saint Charles Street West, East Tower, Suite 1255, Longueuil, Quebec, Canada, J4K 5G4.

Prospective investors should rely only on the information contained or incorporated by reference in this short form prospectus. The Corporation has not authorized anyone to provide different information. If an investor is provided with different or inconsistent information, he or she should not rely on it. The Corporation is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. Prospective investors should assume that the information appearing in this short form prospectus is accurate as of the date on the front cover of this short form prospectus only, regardless of the time of delivery of this short form prospectus or of any sale of the Subscription Rights.

**The Co-Lead Underwriters, TD Securities Inc., RBC Dominion Securities Inc., CIBC World Markets Inc. and Desjardins Securities Inc. are currently wholly-owned indirect subsidiaries of Canadian chartered banks or financial institutions that are currently lenders to the Corporation and certain of its subsidiaries. Consequently, the Corporation may be considered a connected issuer of the Co-Lead Underwriters, TD Securities Inc., RBC Dominion Securities Inc., CIBC World Markets Inc. and Desjardins Securities Inc. under applicable securities laws in certain Canadian provinces. See “Relationship between the Corporation and Certain Persons”.**

**An investment in the Subscription Receipts involves certain risks that are described in the “Risk Factors” section of, and elsewhere in, this short form prospectus, including the documents incorporated herein by reference, and should be considered by any prospective purchaser of the Subscription Receipts.**

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## GLOSSARY OF TERMS

The following terms used in this short form prospectus have the meanings set forth below, unless otherwise indicated:

"**Acquisition**" means the acquisition by the Corporation of all of the issued and outstanding shares of Cloudworks pursuant to the terms of the Share Purchase Agreement;

"**Acquisition Closing**" means the closing of the Acquisition;

"**Acquisition Closing Date**" means the date on which the Acquisition Closing occurs;

"**BC Hydro**" means British Columbia Hydro and Power Authority;

"**Bond Issue**" means the $518.4 million senior and junior bond issue made by HHFI in connection with the financing of the development, construction, commissioning, operation and maintenance of the Harrison Operating Facilities;

"**Canadian GAAP**" means Canadian generally accepted accounting principles;

"**Canadian Holder**" has the meaning attributed thereto under "Certain Canadian Federal Income Tax Considerations — Holders Resident in Canada";

"**Cash Purchase Price**" means cash portion of the Purchase Price, being $145.7 million, including payments to Cloudworks optionholders and certain third parties made by the Corporation on behalf of Cloudworks as well as a working capital holdback amount of approximately $7.9 million. See "Acquisition — Share Purchase Agreement";

"**CC&L**" means CC&L Infrastructure Limited Partnership, the general partner of which is CC&L GP;

"**CC&L GP**" means CC&L Infrastructure Ltd., the general partner of CC&L;

"**CDS**" means CDS Clearing and Depository Services Inc.;

"**CHI**" means Cloudworks Holdings Inc.;

"**CHLP**" means Cloudworks Holdings Limited Partnership;

"**Cloudworks**" means Cloudworks Energy Inc.;

"**Cloudworks Development Projects**" means three development stage run-of-river hydroelectric projects in British Columbia known as the Northwest Stave River Project, the Tretheway Creek Project and the Big Silver-Shovel Creek Project, each of which was awarded a 40-year PPA by BC Hydro in the 2008 Clean Power Call;

"**Cloudworks Principals**" means David F. Andrews, Nicholas Andrews, John D. Johnson, 0808276 B.C. Ltd. and 0808277 B.C. Ltd.;

"**Cloudworks Prospective Projects**" means the various run-of-river hydroelectric projects for which Cloudworks has secured certain land rights, for which an investigative permit application has been filed and for which a proposal has been submitted under a request for proposals or could be submitted under the BC Hydro SOP, for a potential aggregate installed capacity of over 800 MW;

"**Cloudworks Shares**" has the meaning attributed thereto under "Summary";

"**COD**" means commercial operation date in respect of a project in accordance with its PPA;

"**Co-Lead Underwriters**" means BMO Nesbitt Burns Inc. and National Bank Financial Inc.;

"**Combination**" has the meaning attributed thereto under "Recent Developments";

"**Common Shares**" means the common shares in the capital of the Corporation;

"**Conditional Deferred Payments**" means the conditional deferred payments payable by the Corporation to the Vendors described under "Acquisition — Share Purchase Agreement";

"**Consideration Shares**" means the Common Shares of the Corporation to be issued by way of private placement as partial consideration to the shareholders of Cloudworks;

"**Corporation**" means Innergex Renewable Energy Inc.;

"**CPI**" means consumer price index for Canada;

"**DCPLP**" means Douglas Creek Project Limited Partnership;

"**Debentures**" has the meaning attributed thereto under "Recent Developments";

"**Debentures Offering**" has the meaning attributed thereto under "Recent Developments";

"**Definitive Subscription Receipts**" has the meaning attributed thereto under "Description of the Subscription Receipts — Book-Entry, Delivery and Form";

"**Depository**" means CDS or its successor;

"**Dividend Equivalent Payment**" means the amount payable to the holders of Subscription Receipts upon the Acquisition Closing Date equal to the dividends declared by the Corporation on the Common Shares to holders of record on a date during the period from the Offering Closing Date to the Acquisition Closing Date;

"**Douglas Creek Project**" means the 27 MW hydroelectric power project located near Harrison Lake in south-western British Columbia on Douglas Creek;

"**EBITDA**" means earnings before interest, provision for income taxes, depreciation and amortization and other items. See "Reconciliation of Net Earnings to EBITDA;

"**Escrow Agent**" means Computershare Trust Company of Canada;

"**Escrowed Funds**" means the gross proceeds from the sale of the Subscription Receipts, less 50% of the Underwriters' Fee that will be paid by the Corporation to the Underwriters out of the gross proceeds of the Offering on the Offering Closing Date;

"**FCPLP**" means Fire Creek Project Limited Partnership;

"**Fengate**" means Fengate Capital Management Ltd.;

"**FGIC**" means Financial Guaranty Insurance Company;

"**Fire Creek Project**" means the 23 MW hydroelectric power project located near Harrison Lake in south-western British Columbia on Fire Creek;

"**Fund**" means Innergex Power Income Fund;

"**Global Subscription Receipts**" has the meaning attributed thereto under "Description of the Subscription Receipts — Book-Entry, Delivery and Form";

"**GWh**" means one billion watt hours, 1,000 MW hours or one gigawatt hour;

"**Harrison Entities**" means collectively HHLP, HHI, the Project LPs and HHPI;

"**Harrison Operating Facilities**" means the six recently commissioned run-of-river hydroelectric power facilities located near Harrison Lake in south-western British Columbia comprising of the Douglas Creek Project, the Fire Creek Project, the Stokke Creek Project, the Tipella Creek Project, the Upper Stave River Project and the Lamont Creek Project;

"**HET**" means HSBC Trust Company as trustee of Harrison Environmental Trust;

"**HHFI**" means Harrison Hydro Finance Inc., an entity owned by HET and used in connection with the financing of the Harrison Operating Facilities through the Bond Issue;

"**HHI**" means Harrison Hydro Inc., the general partner of HHLP;

"**HHLP**" means Harrison Hydro Limited Partnership;

"**HHPI**" means Harrison Hydro Project Inc., the general partner of each of the Project LPs;

"**IFRS**" means the international financial reporting standards as issued by the International Accounting Standards Board;

"**Joint Information Circular**" has the meaning attributed thereto under "Documents Incorporated by Reference";

"**km**" means one kilometre or 1,000 metres;

"**kV**" means one kilovolt or 1,000 volts;

"**Kwalsa Projects**" means, collectively, the Douglas Creek Project, the Fire Creek Project, the Stokke Creek Project and the Tipella Creek Project;

"**Lamont Creek Project**" means the 27 MW hydroelectric power project located near Harrison Lake in south-western British Columbia on Lamont Creek;

"**LCPLP**" means Lamont Creek Project Limited Partnership;

"**LPF Fund**" means Fengate LPF GP Inc., as general partner of LPF Infrastructure Fund as one of the limited partners of CHLP, which LPF Fund is managed by Fengate;

"**Material Contracts**" has the meaning attributed thereto under "Material Contracts";

"**MOI**" means Minister of Indian and Northern Development Canada;

"**MW**" means one million watts or one megawatt;

"**MWh**" means one million watt hours or one megawatt hour;

"**Non-Canadian Holder**" has the meaning attributed thereto under "Certain Canadian Federal Income Tax Considerations — Holders Not Resident in Canada";

"**Offered Securities**" means the Subscription Receipts and the Common Shares issuable pursuant to the terms of the Subscription Receipts;

"**Offering**" means the distribution of the Subscription Receipts under this short form prospectus;

"**Offering Closing Date**" means the closing date of the Offering;

"**Outside Date**" means March 31, 2011 or such other date as agreed by the Corporation and the Cloudworks Principals;

"**Over-Allotment Option**" means an option to purchase up to an additional 550,000 Subscription Receipts at a price of $9.35 per Subscription Receipt on the same terms and conditions as under the Offering, exercisable in whole or in part from time to time, not later than the 30th day following the Offering Closing Date, for market stabilization purposes and to cover over-allotments, if any;

"**Participant**" has the meaning attributed thereto under "Description of the Subscription Receipts — Book-Entry, Delivery and Form";

"**Plan**" has the meaning attributed thereto under "Eligibility for Investment";

"**PPA**" means a long term power purchase agreement, electricity supply agreement, electricity purchase agreement or renewable energy supply contract;

"**Preferred Share Offering**" has the meaning attributed thereto under "Recent Developments";

"**Project LPs**" means DCPLP, FCPLP, SCPLP, TCPLP, USPLP and LCPLP collectively, and "Project LP" means one of such Project LPs;

"**Proposed Amendments**" has the meaning attributed thereto under "Certain Canadian Federal Income Tax Considerations";

"**Purchase Price**" means $185 million, less certain deductions for amounts payable by the Corporation upon the Acquisition Closing, plus the Conditional Deferred Payments;

"**Rule 144A**" has the meaning attributed thereto under "Plan of Distribution";

"**SCPLP**" means Stokke Creek Project Limited Partnership;

"**Series A Preferred Shares**" has the meaning attributed thereto under "Innergex Renewable Energy Inc.";

"**Share Purchase Agreement**" means the share purchase agreement dated as of February 14, 2011 between the Corporation, David F. Andrews, Nicholas Andrews, John D. Johnson and the other shareholders of Cloudworks;

"**Stokke Creek Project**" means the 22 MW hydroelectric power project located near Harrison Lake in south-western British Columbia on Stokke Creek;

"**SOP**" means a program or mechanism, established by a provincial government or an entity created by such government for such purpose, through which a standard and simplified contracting process and contractual terms are provided for independent power producers to enter into PPAs for relatively small renewable electricity generating projects;

"**Subscription Receipt Agreement**" means the subscription receipt agreement to be entered into between the Corporation, the Co-Lead Underwriters and the Escrow Agent;

"**Subscription Receipts**" means the subscription receipts offered pursuant to the Offering;

"**Subsidiary**" has the meaning ascribed thereto in Section 1.1 of National Instrument 45-106 — *Prospectus and Registration Exemptions* as in effect on the date hereof;

"**Takem Corp**" means Takem Ti Qwelsa 7 Eco Resource Corporation;

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;

"**TCPLP**" means Tipella Creek Project Limited Partnership;

"**Termination Date**" means the date on which a Termination Event occurs;

"**Termination Event**" means either of the following events: (i) the Acquisition Closing does not occur prior to 5:00 p.m. (Montreal Time) on April 30, 2011 (or such other date as may be agreed between the Corporation and the Co-Lead Underwriters, such date to be no later than June 30, 2011), (ii) the Share Purchase Agreement is terminated at any earlier time, or (iii) the Corporation advises the Co-Lead Underwriters or announces to the public that it does not intend to proceed with the Acquisition;

"**TFSA**" has the meaning attributed thereto under "Eligibility for Investment";

"**Time of Closing**" means 10:00 a.m. (Vancouver time) on the Acquisition Closing Date;

"**Tipella Creek Project**" means the 18 MW hydroelectric power project located near Harrison Lake in south-western British Columbia on Tipella Creek;

“**Trust Indenture**” means the trust indenture dated July 6, 2007 between the Trustee, HHFI and the Harrison Entities;

“**Trustee**” means The Bank of New York, as trustee under the Bond Issue;

“**TSX**” means the Toronto Stock Exchange;

“**UHT**” means BC Hydro’s Upper Harrison Terminal adjacent to Lillooet River;

“**Underwriters**” means, collectively, the Co-Lead Underwriters, TD Securities Inc., RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc. and Desjardins Securities Inc.;

“**Underwriters’ Fee**” has the meaning attributed thereto under “Plan of Distribution”;

“**Underwriting Agreement**” means the underwriting agreement between the Corporation and the Underwriters;

“**Upper Stave Projects**” means, collectively, the Upper Stave River Project and the Lamont Creek Project;

“**Upper Stave River Project**” means the 33 MW hydroelectric power project located near Harrison Lake in south-western British Columbia on Stave River;

“**USPLP**” means Upper Stave Project Limited Partnership;

“**U.S. Securities Act**” means the *United States Securities Act of 1933*, as amended; and

“**Vendors**” means the shareholders of Cloudworks.

## SUMMARY

*The following information is a summary only and is qualified by, and should be read in conjunction with, the more detailed information contained elsewhere in this short form prospectus, including the documents incorporated by reference herein.*

### Business of the Corporation

The Corporation is a developer, owner and operator of run-of-river hydroelectric facilities and wind energy projects in North America and a developer of solar photovoltaic installations. The Corporation operates various run-of-river hydroelectric power generating facilities and wind energy projects in the Provinces of Québec, Ontario and British Columbia and in the State of Idaho in the United States.

The Corporation's management team has been active in the renewable power industry since 1990 and has developed and brought to commercial operation or refurbished, through different ventures, 17 operating facilities representing an aggregate net installed capacity of 325.5 MW (gross 537.8 MW). The Corporation owns, together with its partners, three wind farms and 14 hydroelectric facilities currently in operation with respective net aggregate installed capacities of 121.4 MW (gross 319.5 MW) and 204.1 MW (gross 218.3 MW) and seven projects for which power purchase agreements have been secured with an expected aggregate net installed capacity of 202.9 MW (gross 432.9 MW). These seven projects are expected to reach commercial operation between 2011 and 2016. The Corporation also has net interests in approximately 2,000 MW (gross 2,100 MW) of prospective power generating projects, which are in various stages of development.

### Proposed Acquisition of Cloudworks

On February 14, 2011, Innergex Renewable Energy Inc. (the "**Corporation**") entered into a share purchase agreement (the "**Share Purchase Agreement**") with David F. Andrews, Nicholas Andrews, John D. Johnson, 0808276 B.C. Ltd. and 0808277 B.C. Ltd. (collectively, the "**Cloudworks Principals**") and all of the shareholders (collectively, the "**Vendors**") of Cloudworks Energy Inc. ("**Cloudworks**"). The Share Purchase Agreement provides for the acquisition by the Corporation of all the issued and outstanding shares of Cloudworks (the "**Cloudworks Shares**"), subject to the fulfillment or waiver of certain customary closing conditions (the "**Acquisition**"). On the Acquisition Closing Date, all of the Cloudworks Shares will be purchased for an aggregate consideration of: (i) subject to certain adjustments, $185 million, approximately $145.7 million of which will be payable in cash (the "**Cash Purchase Price**") and approximately $39.3 million of which will be payable by the issuance by the Corporation to certain Vendors of common shares of the Corporation (each, a "**Common Share**") by way of private placement at a price of $9.7549 per Common Share (being an amount corresponding to the 20-day volume weighted average trading price of the Common Shares prior to the public announcement of the Acquisition), and (ii) certain conditional deferred payments (the "**Conditional Deferred Payments**") depending on the performance of the Cloudworks portfolio of assets (the "**Purchase Price**"). Approximately $7.9 million will be withheld from the Cash Purchase Price by the Corporation as a working capital holdback amount and released in accordance with the working capital adjustment provisions of the Share Purchase Agreement. The closing of the Acquisition (the "**Acquisition Closing**") is subject to certain closing conditions. See "Acquisition — Share Purchase Agreement".

Headquartered in Vancouver, British Columbia, Cloudworks is an independent power producer that owns (i) an indirect interest of 50.01% in six operating run-of-river hydroelectric power facilities in British Columbia with a combined installed capacity of 150 MW, (ii) 100% of three development-stage run-of-river hydroelectric projects with a combined expected installed capacity of 75.6 MW with PPAs, and (iii) 100% of the various run-of-river hydroelectric projects for which Cloudworks has secured certain land rights, for which an investigative permit application has been filed and for which a proposal has been submitted under a request for proposals or could be submitted under the BC Hydro SOP, for a potential aggregate installed capacity of over 800 MW (the "**Cloudworks Prospective Projects**"). See "Acquisition — Acquired Business".

The following table describes the Corporation's direct and indirect interests in (i) operating facilities, (ii) development projects and (iii) prospective projects after giving effect to the Acquisition:

INNERGEX

Renewable Energy.
Sustainable Development.

| Operating Facilities | Development Projects | Prospective Projects |
|---|---|---|
| **Hydro**<br>- 100% St-Paulin, QC (8.0 MW)<br>- 100% Windsor, QC (5.5 MW)<br>- 100% Chaudière, QC (24.0 MW)<br>- 100% Portneuf-1, QC (8.0 MW)<br>- 100% Portneuf-2, QC (9.9 MW)<br>- 100% Portneuf-3, QC (8.0 MW)<br>- 100% Montmagny, QC (2.1 MW)<br>- 100% Glen Miller, ON (8.0 MW)<br>- 49% Umbata Falls, ON (23.0 MW)<br>- 100% Batawa, ON (5.0 MW)<br>- 100% Rutherford Creek, BC (49.9 MW)<br>- 100% Ashlu Creek, BC (49.9 MW)<br>- 66⅔% Fitzsimmons Creek, BC (7.5 MW)<br>- 100% Horseshoe Bend, Idaho, USA (9.5 MW)<br><br>**Hydro (Cloudworks)**<br>- 50.01% Douglas Creek, BC (27.0 MW)<br>- 50.01% Fire Creek, BC (23.0 MW)<br>- 50.01% Lamont Creek, BC (27.0 MW)<br>- 50.01% Stokke Creek, BC (22.0 MW)<br>- 50.01% Tipella Creek, BC (18.0 MW)<br>- 50.01% Upper Stave River, BC (33.0 MW)<br><br>**Wind**<br>- 38% Baie-des-Sables, QC (109.5 MW)<br>- 38% L'Anse-à-Valleau, QC (100.5 MW)<br>- 38% Carleton, QC (109.5 MW) | **Hydro**<br>- 66⅔% Boulder Creek, BC (23.0 MW)<br>- 50% Kwoiek Creek, BC (49.9 MW)<br>- 66⅔% North Creek, BC (16.0 MW)<br>- 66⅔% Upper Lillooet, BC (74.0 MW)<br><br>**Hydro (Cloudworks)**<br>- 100% Northwest Stave, BC (17.5 MW)<br>- 100% Tretheway Creek, BC (21.2 MW)<br>- 100% Big Silver-Shovel Creek, BC (36.9 MW)<br><br>**Wind**<br>- 38% Gros-Morne (Phase I), QC (100.5 MW)<br>- 38% Gros-Morne (Phase II), QC (111.0 MW)<br>- 38% Montagne-Sèche, QC (58.5 MW) | **Hydro**<br>- 48% QC Projects (42.0 MW)<br>- 100% BC Projects (19.8 MW)<br>- 66⅔% BC Projects (132.0 MW)<br><br>**Hydro (Cloudworks)**<br>- 100% BC Projects (800.0 MW)<br><br>**Wind**<br>- 100% QC Projects (836.0 MW)<br>- 70% QC Projects - Community (123.0 MW)<br>- 50% QC Projects - Community (73.8 MW)<br>- 100% ON Projects - FIT (440.0 MW)<br>- 49% ON Projects - FIT (25.3 MW)<br>- 100% BC Projects (475.0 MW)<br><br>**Solar**<br>- 100% ON Projects - FIT (19.0 MW) |

| | Operating Facilities | Development Projects | Prospective Projects |
|---|---|---|---|
| **Hydro (before Cloudworks)** | | | |
| Gross capacity: | 218.3 MW | 162.9 MW | 193.8 MW |
| Net capacity[1]: | 204.1 MW | 100.3 MW | 128.0 MW |
| **Hydro (Cloudworks)** | | | |
| Gross capacity: | 150.0 MW | 75.6 MW | 800.0 MW |
| Net capacity[1]: | 75.0 MW | 75.6 MW | 800.0 MW |
| **Wind** | | | |
| Gross capacity: | 319.5 MW | 270.0 MW | 1,973.1 MW |
| Net capacity[1]: | 121.4 MW | 102.6 MW | 1,886.4 MW |
| **Solar** | | | |
| Gross capacity: | - | - | 19.0 MW |
| Net capacity[1]: | - | - | 19.0 MW |
| **Total (before Cloudworks)** | | | |
| Gross capacity: | 537.8 MW | 432.9 MW | 2,185.9 MW |
| Net capacity[1]: | 325.5 MW | 202.9 MW | 2,033.4 MW |
| **Total (with Cloudworks)** | | | |
| Gross capacity: | 687.8 MW | 508.5 MW | 2,985.9 MW |
| Net capacity[1]: | 400.5 MW | 278.5 MW | 2,833.4 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 strategic partners' ownership share.

## The Offering

**Offering Closing Date:** On or about March 4, 2011.

**Use of Proceeds:** The estimated net proceeds from the distribution of the subscription receipts (the "**Subscription Receipts**") offered pursuant to this short form prospectus (the "**Offering**"), after deducting the Underwriters' Fee and the expenses of the Offering payable by the Corporation, will be approximately $152.8 million assuming there is no exercise of the Over-Allotment Option. The Corporation will use such proceeds to finance the Cash Purchase Price to be paid by the Corporation in relation to the Acquisition, expenses incurred in connection with the Acquisition and for general corporate purposes. If the Over-Allotment Option is exercised in full, the estimated net proceeds to the Corporation, after deducting the Underwriters' Fee and the expenses of the Offering payable by the Corporation, will be approximately $157.8 million. In the event the Over-Allotment Option is exercised, in whole or in part, the proceeds received from the exercise of such options will be used for general corporate purposes. See "Use of Proceeds".

**Listing and Trading:** The Toronto Stock Exchange (the "**TSX**") has conditionally approved the listing of the Subscription Receipts and the Common Shares issuable pursuant to the terms of the Subscription Receipts (the "**Offered Securities**") on the TSX. Listing is subject to the Corporation fulfilling all of the listing requirements of the TSX.

## Subscription Receipts

**Issue:** 17,200,000 Subscription Receipts. If the Acquisition Closing occurs prior to 5:00 p.m. (Montreal Time) on the date on which a Termination Event occurs (the "**Termination Date**"), the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to Computershare Trust Company of Canada (the "**Escrow Agent**") one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The holders of Subscription Receipts will receive, without payment of additional consideration, one Common Share for each Subscription Receipt held, plus any Dividend Equivalent Payment. If, however, the date on which the Acquisition Closing occurs (the "**Acquisition Closing Date**") is on or prior to the closing date of the Offering (the "**Offering Closing Date**"), the Corporation will deliver Common Shares instead of Subscription Receipts to investors in the Offering and the distribution of such Common Shares will be qualified by this short form prospectus.

**Price:** $9.35 per Subscription Receipt.

**Release of Escrowed Funds:** The proceeds from the sale of the Subscription Receipts, less 50% of the Underwriters' Fee that will be paid by the Corporation to BMO Nesbitt Burns Inc. and National Bank Financial Inc. (the "**Co-Lead Underwriters**"), TD Securities Inc., RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc. and Desjardins Securities Inc. (together with the Co-Lead Underwriters, the "**Underwriters**") out of the gross proceeds of the Offering on the Offering Closing Date (the "**Escrowed Funds**") will be delivered to and held by the Escrow Agent and invested in short-term obligations of, or guaranteed by, the Government of Canada, a province of Canada, or a Canadian chartered bank, as directed by the Corporation, pending the Acquisition Closing or the occurrence of the Termination Date. Forthwith upon the Acquisition Closing and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned thereon less 50% of the Underwriters' Fee, will be released to the Corporation and 50% of the Underwriters' Fee will be remitted to the Co-Lead Underwriters on behalf of the Underwriters.

In the event that any of the following events occurs: (i) the Acquisition Closing does not occur prior to 5:00 p.m. (Montreal Time) on April 30, 2011 (or such other date as may be agreed between the Corporation and the Co-Lead Underwriters, such date to be no later then June 30, 2011), (ii) the Share Purchase Agreement is terminated at any earlier time, or (iii) the Corporation advises the Co-Lead Underwriters or announces to the public that it does not intend to proceed with the Acquisition (a "**Termination Event**"), holders of Subscription Receipts shall, commencing on the second business day following the Termination Date, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned on the Escrowed Funds. See "Description of the Subscription Receipts".

## Risk Factors

Investment in the Subscription Receipts is subject to a number of risks that investors should carefully consider. Those risks include risks related to the Corporation, Cloudworks and the Acquisition. See “Forward-Looking Statements” and “Risk Factors”.

## FORWARD-LOOKING STATEMENTS

This short form prospectus, including documents incorporated by reference herein, contains forward-looking information within the meaning of applicable securities laws. All information and statements other than statements of historical facts contained in this short form prospectus are forward-looking information. Such statements and information may be identified by looking for words such as “about”, “approximately”, “may”, “believes”, “expects”, “will”, “intend”, “should”, “plan”, “predict”, “potential”, “project”, “anticipate”, “estimate”, “continue” or similar words or the negative thereof or other comparable terminology. Such forward-looking information includes, without limitation, statements with respect to: the anticipated closing of the Offering and the Acquisition, the anticipated use of proceeds of the Offering and the benefits that may accrue to the Corporation and its shareholders as a consequence of the Acquisition, including those set out under “Acquisition — Rationale for the Acquisition”, the future financial position, power production, growth prospects, cost synergies, operational efficiencies and added stability of cash flows, business strategy and plans, and objectives of or involving the Corporation; capital expenditures and investments programs; access to credit facilities and financing; capital taxes; income taxes; risk profile; cash flows and earnings and the components thereof; future income tax treatment; statements with respect to levels of dividends to be paid to shareholders, dividend policy and the timing of payment of such dividends. Actual events or results may differ materially.

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, performance of operating facilities, satisfaction of all other conditions of closing of the Acquisition, absence of exercise of any termination right and the timing and receipt of regulatory approval with respect to the Offering and the issuance of Common Shares by way of private placement pursuant to the Acquisition. 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.

Since forward-looking information addresses future events and conditions, by its very nature it involves inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the market for Subscription Receipts, escrow release conditions, volatility of market price of shares, dilutive effects of the Offering on holders of Common Shares, failure to close the Acquisition, integration of the Cloudworks business, failure to realize the Acquisition benefits (including cost synergies, operational efficiencies and added stability of cash flows), potential undisclosed liabilities associated with the Acquisition, availability of water flows and wind, delays in project development, uncertainty relating to the development of new power generating facilities, uncertainty relating to the amounts of power that current or future operating facilities are able to generate, equipment failure, interest rate fluctuations and debt refinancing, contractual restrictions contained in instruments governing current and future indebtedness, penalties for events of default under certain power purchase agreements, the ability to retain qualified personnel and management, the performance of third-party suppliers, reliance on major customers, relationships with communities in which projects or facilities are located and joint venture partners, wind turbine supply, obtainments of permits, changes to governmental regulatory requirements and applicable governing statutes, obtaining new power purchase agreements, securing appropriate land for projects, reliance on power purchase agreements, reliance on transmission systems, water and land rental expenses, dam safety, health, safety and environmental risks, natural disasters, industry and economic-related risks, general economic conditions, foreign exchange fluctuations, sufficiency of insurance coverage, decreased financial strength of suppliers, inflation, fuel price fluctuations, exchange rate fluctuations, interest rate fluctuations, risks relating to the Corporation’s business model and strategy and implementation of acquired businesses, the inability to access sufficient capital from internal and external sources and liquidity risks related to derivative financial instruments. Readers are cautioned that the foregoing list is not exhaustive. Readers should carefully review and consider the risk factors described under the section of this short form prospectus titled “Risk Factors”, in the section titled “Risk Factors” of the revised annual information form of the Corporation dated August 23, 2010 and elsewhere in this short form prospectus. The information contained in this short form prospectus, including the documents incorporated by reference herein, identifies additional factors that could affect the operating results and performance of the Corporation. Prospective investors are urged to carefully consider those factors.

To the extent any forward-looking information in this short form prospectus constitutes future-oriented financial information or financial outlooks, within the meaning of securities laws, such information is being provided to demonstrate the potential benefits of the Acquisition and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlooks, as with forward-looking information generally, are, without limitation, based on the assumptions and subject to the risks set out above.

The reader is further cautioned that the preparation of financial statements, including pro forma financial statements, in accordance with the Canadian generally accepted accounting principles (the “**Canadian GAAP**”) requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses.

The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. The forward-looking information contained herein is made as of the date of this short form prospectus (or, in the case of information contained in a document incorporated by reference herein, as of the date of such document), and the Corporation undertakes no obligation to publicly update such forward-looking information to reflect new information, subsequent or otherwise, unless required by applicable securities laws.

## NON-CANADIAN GAAP EARNINGS MEASURE

References in this short form prospectus to "EBITDA" are to earnings before interest, provision for income taxes, depreciation and amortization and other items. The Corporation believes that, in addition to net earnings, EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings determined in accordance with Canadian GAAP as an indicator prescribed by Canadian GAAP, and the method used by the Corporation to calculate EBITDA may differ from the method used by other issuers. Accordingly, as an indicator of the performance of the Corporation or Cloudworks or to cash flows from operating, EBITDA may not be comparable to similar measures used by other issuers. A reconciliation of EBITDA to net earnings based on the financial statements of the Corporation, Cloudworks and of the Corporation on a pro forma basis after giving effect to the Acquisition as well as the Offering, has been provided under "Reconciliation of Net Earnings to EBITDA". The Corporation defines "free cash flow per share" for a given period as cash from operating activities after maintenance capital expenditures, investments in reserves and scheduled principal repayments of debt, divided by the number of issued and outstanding Common Shares on a fully-diluted basis for the period. Free cash flow per share is a supplemental Non-Canadian GAAP financial measure and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. Furthermore, the method used by the Corporation to calculate its free cash flow per share may differ from the method used by other issuers.

## IMPACT OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

The adoption of international financial reporting standards ("**IFRS**") as of January 1, 2011 will result in some changes to the Corporation and Cloudworks' accounting policies that are applied in the recognition, measurement, and disclosure of balances and transactions in their financial statements. The analysis of the impact of the adoption of IFRS on Cloudworks' financial statements has not yet been made.

The Corporation does expect that applying IFRS in 2011, to account for the Acquisition, as opposed to Canadian GAAP, which was used in establishing the pro forma financial statements included in this short-form prospectus, will have an impact on the Corporation's 2011 first quarter financial statements, including on elements pertaining to purchase accounting, including revaluation of all assets and liabilities at fair values, minority interest, contingent consideration, and treatment of transaction costs. These impacts are not reflected in the pro forma financial statements of the Corporation contained in this short form prospectus. See "Financial Statements".

## DOCUMENTS INCORPORATED BY REFERENCE

**Documents of the Corporation**

The following documents of the Corporation, which have been filed with the securities commissions of all of the provinces of Canada, are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

1. the revised annual information form of the Corporation dated August 23, 2010 for the year ended December 31, 2009;

2. the audited financial statements of the Corporation as at December 31, 2009 and 2008 for the years then ended, together with the notes thereto, the auditors' report thereon and management's discussion and analysis in respect thereof;

3. the unaudited consolidated statements of the Corporation as at and for the three and nine months ended September 30, 2010 and 2009, together with the notes thereto and management's discussion and analysis in respect thereof;

4. the management information circular of the Corporation dated as of April 30, 2010 in respect of the annual general meeting of Corporation shareholders held on June 1, 2010;

5. the joint information circular dated February 17, 2010 (the "**Joint Information Circular**") of the Corporation and Innergex Power Income Fund (the "**Fund**") prepared in connection with the Corporation's and the Fund's securityholders meetings held on March 24, 2010 to consider the Combination;

6. the material change report dated February 2, 2010 in respect of the entering into a definitive agreement with the Fund in connection with the Combination and the retirement of Gilles Lefrançois;

7. the material change report dated February 8, 2010 in respect of the initiation of commercial operation of the Fitzsimmons Creek run-of-river hydroelectric power generating plant;

8. the material change report dated February 16, 2010 in respect of the entering into of a bought deal agreement relating to an offering of extendible convertible unsecured subordinated debentures;

9. the material change report dated March 29, 2010, in respect of the selection of the Corporation for power purchase agreements awards for three of its run-of-river hydroelectric projects submitted in response to the 2008 BC Clean Power Call;

10. the material change report dated March 30, 2010 in respect of the completion of the Combination; and

11. the material change report dated February 24, 2011 announcing the Acquisition and the Offering.

Any documents of the type described in Section 11.1 of Form 44-101F1 of National Instrument 44-101 – *Short Form Prospectus Distributions* filed by the Corporation with a securities commission or similar authority in any of the provinces of Canada after the date of this short form prospectus and prior to the termination of the Offering, shall be deemed to be incorporated by reference into this short form prospectus.

**Documents of the Fund**

The following documents of the Fund, which have been filed with the securities commissions or similar regulatory authorities in each of the provinces of Canada where the Fund was a reporting issuer prior to the completion of the Combination, are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

1. the audited consolidated balance sheets of the Fund as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, changes in unitholders' equity and cash flows for the years ended December 31, 2009 and 2008, together with the notes thereto, the auditors' report thereon and the management's discussion and analysis in respect thereof;

2. the material change report dated February 2, 2010 in respect of the entering into of the arrangement agreement relating to the Combination;

3. the material change report dated March 30, 2010 in respect of the completion of the arrangement; and

4. the Joint Information Circular.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed in its unmodified or superseded form to constitute part of this short form prospectus.**

## ELIGIBILITY FOR INVESTMENT

In the opinion of McCarthy Tétrault LLP, counsel to the Corporation, and Borden Ladner Gervais LLP, counsel to the Underwriters, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder, as amended (the "**Tax Act**") in force as of the date hereof, and specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance of Canada prior to the date hereof, the Offered Securities will be a qualified investment under the Tax Act at the time of their acquisition by a trust governed by a registered retirement savings plan, a registered retirement income fund, a deferred profit sharing plan, a registered disability savings plan, a registered education savings plan and a tax-free savings account ("**TFSA**") (each a "**Plan**"), provided that at such time, in the case of the Subscription Receipts, the Corporation and any person who does not deal at arm's length (within the meaning of the Tax Act) with the Corporation is not an annuitant, a beneficiary, an employer or a subscriber under the Plan.

Notwithstanding the foregoing, if the Offered Securities are "prohibited investments" for a trust governed by a TFSA, the holder of such TFSA may be subject to a penalty tax under the Tax Act and, based on amendments to the Tax Act proposed by the Minister of Finance of Canada, other tax consequences may result. An Offered Security will not be a "prohibited investment" for a particular trust governed by a TFSA provided the holder deals at arm's length with the Corporation for purposes of the Tax Act and does not have a "significant interest" (as defined in the Tax Act) in the Corporation or any person or partnership with which the Corporation does not deal at arm's length for purposes of the Tax Act. Prospective investors should consult their own tax advisors having regard to their particular circumstances.

## INNERGEX RENEWABLE ENERGY INC.

The Corporation was incorporated in Canada under the *Canada Business Corporations Act*, by articles of incorporation dated October 25, 2002. On October 25, 2007, the articles of the Corporation were amended to change the Corporation's name from Innergex Management Inc. to Innergex Renewable Energy Inc. and its French version, Innergex énergie renouvelable inc. The articles of the Corporation were amended on December 4, 2007, to change the authorized capital of the Corporation and the minimum number of directors of the Corporation from one to three and to amend the authorized and issued capital of the Corporation to create an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. On March 29, 2010, the articles of the Corporation were amended by way of articles of arrangement to give effect to the Combination. On September 9, 2010, the articles of the Corporation were amended to create the Cumulative Rate Reset Preferred Shares, Series A (the "**Series A Preferred Shares**") and the Cumulative Floating Rate Preferred Shares, Series B. The Corporation's head and registered office is located at 1111 Saint-Charles Street West, East Tower, Suite 1255, Longueuil, Quebec, Canada, J4K 5G4.

## BUSINESS OF THE CORPORATION

The Corporation is a developer, owner and operator of run-of-river hydroelectric facilities and wind energy projects in North America and a developer of solar photovoltaic installations. The Corporation operates various power generating facilities in the Provinces of Quebec, Ontario and British Columbia and in the State of Idaho in the United States.

The Corporation's management team has been active in the renewable power industry since 1990 and has developed and brought to commercial operation or refurbished, through different ventures, 17 operating facilities representing an aggregate net installed capacity of 325.5 MW (gross 537.8 MW). The Corporation owns, together with its partners, three wind farms and 14 hydroelectric facilities currently in operation with respective net aggregate installed capacities of 121.4 MW (gross 319.5 MW) and 204.1 MW (gross 218.3 MW) and seven projects for which power purchase agreements have been secured with an aggregate net installed capacity of 202.9 MW (gross 432.9 MW). These seven projects are expected to reach the commercial operation stage between 2011 and 2016. The Corporation has also net interests in approximately 2,000 MW (gross 2,100 MW) of prospective power generating projects that are in various stages of development.

## RECENT DEVELOPMENTS

The following is a summary of certain significant developments in the operations and affairs of the Corporation that have occurred since December 31, 2009.

On January 31, 2010, the Corporation and the Fund entered into a definitive agreement to undertake a strategic combination of the two entities pursuant to which the Fund would acquire the Corporation by way of a reverse take-over, thereby effecting at the same time the conversion of the Fund to a corporation (the "**Combination**"). Pursuant to the Combination, completed on March 29, 2010, Fund unitholders (other than the Corporation) exchanged their Fund units on the basis of 1.46 Common Shares for each unit of the Fund held. Further details regarding the Combination may be found in the Joint Information Circular of the Corporation and the Fund prepared in connection with the Corporation's and the Fund's securityholders meeting held to consider the Combination and incorporated by reference herein. Forthwith upon completion of the Combination, the Corporation completed a corporate reorganization, pursuant to which, inter alia, (i) Innergex Power Trust distributed all of its assets and transferred all of its liabilities to the Fund and ceased to exist; and (ii) the Fund subsequently distributed all of its assets and transferred all of its liabilities to the Corporation and ceased to exist.

On February 1, 2010, Gilles Lefrançois, founder and former Executive Chairman of the Board of Directors of the Corporation, announced that he was retiring from the Corporation.

On March 8, 2010, the Corporation completed an offering (the "**Debenture Offering**") of extendible convertible unsecured subordinated debentures in the aggregate principal amount of $70 million (the "**Debentures**"). The Debentures have a maturity date of April 30, 2017, bear interest at a rate of 5.75% per annum, payable semi-annually, and are convertible at the option of the holder into Common Shares at a conversion price of $10.65 per Common Share. On March 16, 2010, an over-allotment option was exercised by the underwriters to purchase an additional $10.5 million principal amount of Debentures, bringing the aggregate gross proceeds of the Debentures Offering to $80.5 million. The Debentures commenced trading on the TSX on March 8, 2010 under the symbol "INE.DB".

On March 11, 2010, the Corporation was selected by British Columbia Hydro and Power Authority ("**BC Hydro**") to enter into PPAs for three run-of-river hydro projects submitted in the BC Clean Call, namely the Upper Lillooet River, Boulder Creek and North Creek projects, with an expected aggregate net installed capacity of 75.3 MW (gross 113 MW).

On September 14, 2010, the Corporation completed an offering (the "**Preferred Share Offering**") of 3,400,000 Series A Preferred Shares at a price of $25 per share for aggregate gross proceeds of $85 million. The Series A Preferred Shares commenced trading on the TSX on September 14, 2010 under the symbol "INE.PR.A".

On December 20, 2010, the Corporation and the Rivière-du-Loup Municipal Regional County announced that they were selected by Hydro-Quebec to enter into a PPA with Hydro-Quebec pertaining to the 24.6 MW Viger-Denonville Community Wind Farm Project, submitted on July 6, 2010 under the call for tenders for 250 MW originating from community projects. The Viger-Denonville Community Wind Farm Project will have a total installed capacity of 24.6 MW and its commercial operation is scheduled to begin in 2013.

On December 22, 2010, the Corporation entered into a credit agreement providing for a $31.7 million non-recourse construction and term project financing for the 38% interest it holds in the 58.5 MW Montagne-Sèche wind farm project located in the Township of Cloridorme, in the province of Quebec. The credit agreement with National Bank of Canada, the sole lender, allows the Corporation to access the funds necessary to finalize the construction of the project. The $31.7 million construction loan will convert into a four-year term loan, amortizing over a period of approximately 18.5 years, starting at the beginning of commercial operation. Construction of the wind farm has started and its commercial operation is expected to begin by December 1, 2011.

## ACQUISITION

### Background

On June 17, 2010, the Corporation entered into a confidentiality information memorandum with Cloudworks and from thereon through November 2010, the Corporation engaged in periodic discussions with Cloudworks concerning a possible transaction. On November 23, 2010, the Corporation, Cloudworks and certain Cloudworks Principals entered into a non-binding proposal to acquire the Cloudworks Shares, which contained exclusivity provisions in favour of the Corporation. Under the terms of the exclusivity provisions, the Corporation was given the exclusive right to conduct further due diligence and analysis of Cloudworks and to engage in discussions and negotiations with Cloudworks and such Cloudworks Principals concerning a possible sale of the Cloudworks Shares to the Corporation. From November 23, 2010, the Corporation conducted additional due diligence and review of Cloudworks and continued discussions and negotiations concerning a possible transaction with Cloudworks and certain Cloudworks Principals, including the terms of a possible share purchase agreement. As part of its due diligence process, the Corporation reviewed extensive information provided by Cloudworks and such Cloudworks Principals. On February 14, 2011, the Corporation, the Cloudworks Principals and each Vendor entered into the Share Purchase Agreement. The consummation of the Acquisition and the transactions contemplated in the Share Purchase Agreement is subject to various conditions. See "Acquisition — Share Purchase Agreement".

### Purchase Price

Pursuant to the Share Purchase Agreement, the Cloudworks Shares will be acquired by the Corporation for an aggregate consideration of (i) subject to certain adjustments, $185 million, approximately $145.7 million of which will be payable in cash, and approximately $39.3 million of which will be payable by the issuance of Common Shares to the Vendors by way of private placement, and (ii) certain Conditional Deferred Payments based on the performance of the Cloudworks portfolio of assets (the "**Purchase Price**"). The Conditional Deferred Payments are further described under "Acquisition — Share Purchase Agreement". Approximately $7.9 million will be withheld from the Cash Purchase Price by the Corporation as a working capital holdback amount and released in accordance with the working capital adjustment provisions of the Share Purchase Agreement. The Acquisition Closing is subject to certain closing conditions. See "Acquisition — Share Purchase Agreement".

The Corporation intends to use the net proceeds of the Offering to finance the Cash Purchase Price payable in relation to the Acquisition. See "Use of Proceeds".

### Rationale for the Acquisition

*Attractive Assets with Long Term PPAs*

Supported by two 40-year PPAs with BC Hydro, the Harrison Operating Facilities consist of six recently commissioned run-of-river hydroelectric facilities. The first PPA is in respect of the Douglas Creek Project, Fire Creek Project, Stokke Creek Project and Tipella Creek Project (collectively, the "**Kwalsa Projects**"), which have a combined installed capacity of approximately 90 MW. The second PPA is in respect of the Upper Stave River Project and the Lamont Creek Project (the "**Upper Stave Projects**"), which have a combined installed capacity of approximately 60 MW. Together with the Cloudworks Development Projects which have also secured 40-year PPAs with BC Hydro, the Acquisition will increase the Corporation's weighted average remaining PPA term from 21 to 25 years. The Corporation believes this is significantly longer than any of the Corporation's Canadian peers. The Acquisition will also add four watersheds to the Corporation's portfolio, thereby further enhancing its diversification.

*Low Cost and Long Term Financing*

The Harrison Operating Facilities were financed in 2007 pursuant to the Bond Issue consisting of $246 million of Series B Senior Fixed Rate Bonds, $245.2 million of Series A Senior Real Return Bonds and $27.2 million of Series C Junior Real Return Bonds. The rate on the Series B Senior Fixed Rate Bonds is 5.564%, while the effective rates on the Series A Senior Real Return Bonds and the Series C Junior Real Return Bonds are 2.958% and 4.273%, plus CPI, respectively. The bonds benefit from a 40-year principal repayment schedule having a maturity in 2049, which matches the cash flow profile of the Harrison Operating Facilities. The CPI indexation of the real return bonds replicates the CPI indexation of the PPAs. Following the Acquisition, the Corporation will benefit from Cloudworks 50.01% interest of cash on hand and funded reserve accounts related to the Bond Issue, which are subject to certain restrictions, for an aggregate amount of approximately $35 million.

*Expands the Corporation's Footprint in British Columbia*

The Province of British Columbia has been a key market focus for the Corporation. In British Columbia, the Corporation already operates three run-of-river hydroelectric facilities with an aggregate net installed capacity of 105 MW. The Corporation also has run-of-river hydroelectric projects under construction and under development for an aggregate net potential installed capacity of approximately 100 MW, including the 50 MW Kwoiek Creek (50%), the 74 MW Upper Lillooet (66⅔%), the 23 MW Boulder Creek (66⅔%) and the 16 MW North Creek (66⅔%) hydroelectric projects.

*Accretive to Free Cash Flow per Share*

The Acquisition is expected to be accretive to the Corporation's free cash flow per share upon commissioning of the three Cloudworks Development Projects (based on $160 million of the Purchase Price being allocated to the Harrison Operating Facilities and the Cloudworks Development Projects). Additional cash flows generated from the Cloudworks' assets are expected to further increase the Corporation's liquidity and flexibility to fund the development of future projects. By adding the recently commissioned low-risk Harrison Operating Facilities to its portfolio, the Corporation believes it is improving the stability of its cash flows and the sustainability of its dividend. See "Non-Canadian GAAP Earnings Measure".

*Provides Cost Synergies and Operational Efficiencies*

The integration of the Corporation's and Cloudworks' teams is expected to yield development cost synergies and operational efficiencies. The Corporation already owns a number of various prospective projects that may be developed under the BC Hydro SOP in conjunction with the Cloudworks Prospective Projects. Cloudworks has made significant investments in electrical and community infrastructure that are expected to facilitate the development of these projects. Furthermore, David F. Andrews, Nicholas Andrews and John D. Johnson have agreed to stay involved with the Corporation in an advisory role for a period of one year after the Acquisition Closing.

*Improved Asset Diversification*

The Corporation will benefit from an improved asset diversification, owning a net interest in approximately 401 MW distributed across 20 operating hydro facilities (approximately 279 MW) and three operating wind farms (approximately 121 MW). It will also have 11 projects under development with PPAs (approximately 176 MW of hydro and approximately 103 MW of wind) coming on-line over the next six years and over 2,800 MW (net) of various prospective projects. The Corporation will benefit from an attractive portfolio diversified by geographic location, electricity off-taker and stage of development, with no individual project accounting for more than 10% of the total electricity production once all development projects with PPAs are in operation.

*Significantly Increases the Scale of the Corporation*

The Corporation will be of significantly larger scale and is expected to benefit from enhanced access to capital markets. The Corporation expects it will benefit from an improved financial strength, which is expected to lower the Corporation's cost of capital, facilitate and accelerate project development and enhance its anticipated return on equity. It is also expected to benefit from increased market capitalization and enterprise value, increased trading liquidity and greater access to capital to finance its growth. The Corporation is expected to have greater financial and business resources in an industry in which economies and efficiencies of scale are increasingly important.

## Acquired Business

### *General*

Founded in 2000, Cloudworks is a privately owned company incorporated under the former *Company Act* (British Columbia) and recognized as a company under the *Business Corporations Act* (British Columbia) that principally develops, constructs and operates run-of-river hydroelectric projects in British Columbia. Cloudworks' management were previously involved in the development of run-of-river hydroelectric projects on Miller and Rutherford creeks having a combined installed capacity of 80 MW. Cloudworks currently owns (i) an indirect interest of 50.01% in six operating run-of-river hydroelectric power facilities with a combined installed capacity of 150 MW, (ii) 100% of three development-stage run-of-river hydroelectric projects with a combined expected installed capacity of 75.6 MW with PPAs and (iii) 100% of over 800 MW of the Cloudworks Prospective Projects. Cloudworks' renewable energy generation projects have been developed through close collaboration with local communities, First Nations, outdoor recreation enthusiasts and others who enjoy the areas surrounding the projects, with the goal of bringing clean, renewable energy to British Columbia while providing long-term benefits to the people who live, work and play near project sites.

### *Management Team and Employees*

Cloudworks has approximately 30 employees, which includes 15 employees in operations and maintenance, six employees in development and construction, three employees in finance and legal and three employees in its environment division. Cloudworks complements this internal capacity with the use of external consultants when required, including independent engineering firms, to assist it with the feasibility analysis of its projects.

### *Harrison Operating Facilities*

Cloudworks indirectly owns an interest of 50.01% in the Harrison Operating Facilities comprised of six recently commissioned run-of-river hydroelectric power facilities located near Harrison Lake in south-western British Columbia. The Harrison Operating Facilities are interconnected to each other and share a joint interconnection to the BC Hydro transmission system. See "Risk Factors - Risks Related to the Acquisition and Cloudworks". The aggregate installed capacity of the Harrison Operating Facilities is 150 MW with an estimated annual energy output of 594.4 GWh.

All power generated from the Harrison Operating Facilities is sold to BC Hydro, a provincial government-owned utility, under two 40-year PPAs. The first PPA is in respect of the Kwalsa Projects, which have a combined installed capacity of approximately 90 MW. The second PPA is in respect of the Upper Stave Projects, which have a combined installed capacity of approximately 60 MW. The Harrison Operating Facilities are expected to generate approximately $47 million in revenues annually (based on a 100% ownership). The average rate for the electricity under the PPAs for the Harrison Operating Facilities is adjusted annually by a portion of CPI. In addition, the Harrison Operating Facilities are entitled to receive contributions under the ecoENERGY Initiative. See "Acquisition – Acquired Business – ecoENERGY Initiative".

Cloudworks' management first discussed the potential for run-of-river projects in the Harrison Lake region with the local Douglas First Nation in 1999 and acquired or filed applications for water licences for each of the Harrison Operating Facilities prior to 2004. Upon completion of hydrology and environmental studies, and the obtaining of required permits and agreements, development applications were submitted into BC Hydro's 2006 Open Call for Power, resulting in the award of two 40-year PPAs covering all six of the Harrison Operating Facilities. Cloudworks raised project debt financing in July 2007 and begin construction of the Harrison Operating Facilities shortly thereafter.

All six of the Harrison Operating Facilities connect to BC Hydro's high voltage transmission system at a shared 138 kV/360 kV substation. The Harrison Operating Facilities' main substation, Kwalsa substation, is located next to BC Hydro's Upper Harrison Terminal (the "**UHT**") adjacent to the Lillooet River and BC Hydro's 3L2 and 3L5 transmission lines. Each of the Harrison Operating Facilities has a substation transforming the generation voltage from 6.9 kV to 138 kV and delivered to the Kwalsa substation via a private 138 kV transmission line. The energy is transformed to 360 kV at the Kwalsa substation. The energy is then delivered to the point of interconnection at the UHT.

### *Cloudworks Development Projects*

Cloudworks also directly owns 100% of the Cloudworks Development Projects. In April 2010, Cloudworks entered into a 40-year PPA for each of the Cloudworks Development Projects. According to the PPA, the Cloudworks Development Projects have an expected installed capacity of 75.6 MW in aggregate and have guaranteed commercial operation dates (each, a "**COD**") of December 1, 2013, December 1, 2015 and November 1, 2016, respectively. The Cloudworks' Development Projects are expected to generate approximately $35 million in annual revenues once all Cloudworks Development Projects reach commercial operation, which is expected to occur in 2017.

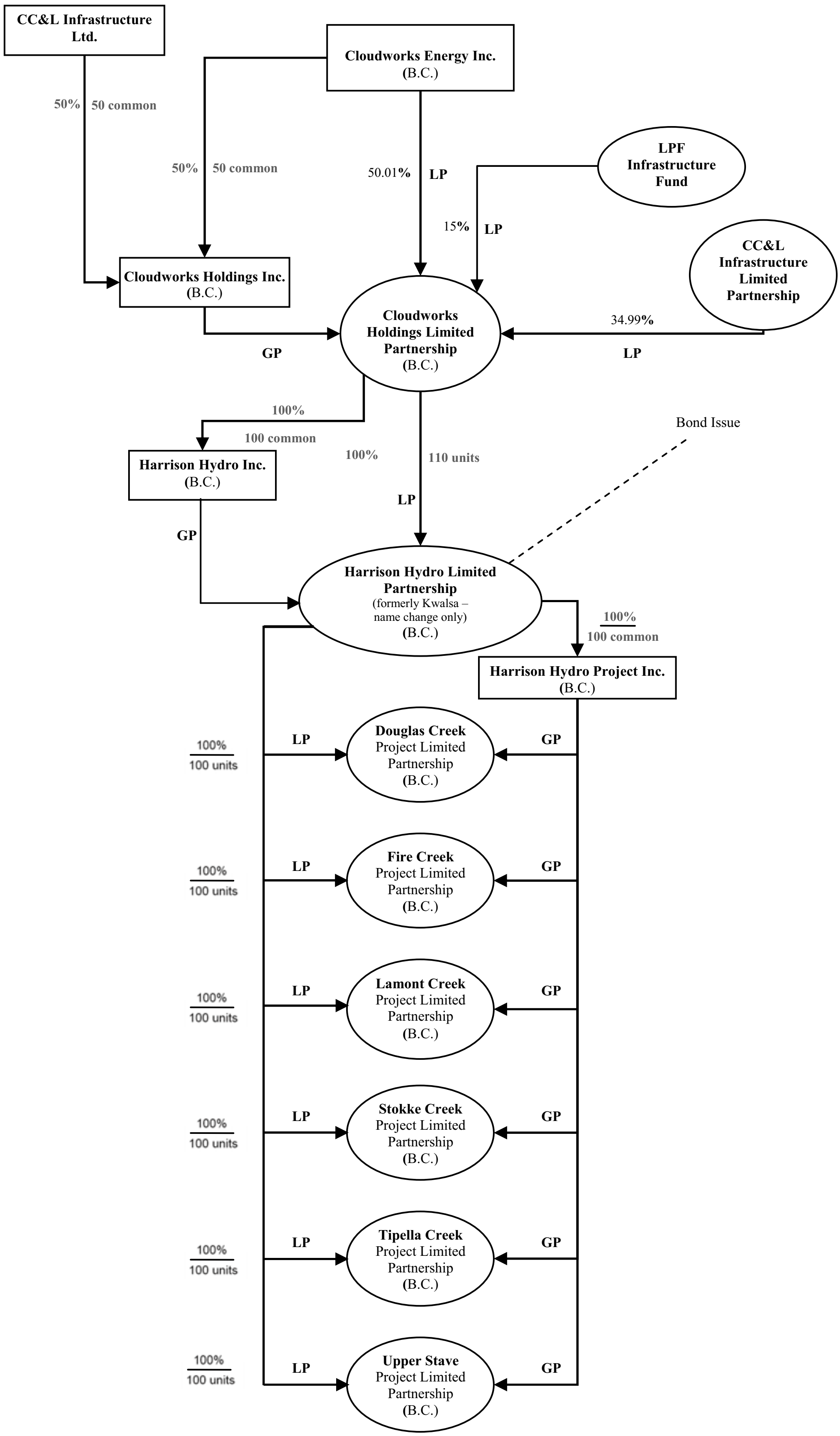
*Cloudworks Prospective Projects*

Cloudworks also directly owns 100% of the Cloudworks Prospective Projects in British Columbia, with a potential combined installed capacity of over 800 MW. The Cloudworks Prospective Projects, which vary in their estimated capacity, energy production and overall feasibility, may or may not be awarded a PPA by BC Hydro in future power calls or other power acquisition processes or be able to find an alternate purchaser for the power that can be generated by them. See “Acquisition — Description of Cloudworks Prospective Projects”.

**Organizational and Financial Structure**

*Ownership Structure*

Cloudworks owns 100% of the Cloudworks Development Projects and the Cloudworks Prospective Projects. The following chart describes Cloudworks’ organizational structure as it relates to the ownership of the Harrison Operating Facilities:



CC&L Infrastructure Ltd.
50%
50 common
Cloudworks Energy Inc. (B.C.)
50%
50 common
50.01%
LP
LPF Infrastructure Fund
15%
LP
CC&L Infrastructure Limited Partnership
Cloudworks Holdings Inc. (B.C.)
Cloudworks Holdings Limited Partnership (B.C.)
34.99%
GP
LP
100%
100 common
Bond Issue
Harrison Hydro Inc. (B.C.)
100%
110 units
LP
GP
Harrison Hydro Limited Partnership (formerly Kwalsa – name change only) (B.C.)
100%
100 common
Harrison Hydro Project Inc. (B.C.)
100%
100 units
LP
Douglas Creek Project Limited Partnership (B.C.)
GP
100%
100 units
LP
Fire Creek Project Limited Partnership (B.C.)
GP
100%
100 units
LP
Lamont Creek Project Limited Partnership (B.C.)
GP
100%
100 units
LP
Stokke Creek Project Limited Partnership (B.C.)
GP
100%
100 units
LP
Tipella Creek Project Limited Partnership (B.C.)
GP
100%
100 units
LP
Upper Stave Project Limited Partnership (B.C.)
GP

Cloudworks owns a 50.01% interest in the Harrison Operating Facilities indirectly through ownership of 50.01% of the issued and outstanding partnership units of Cloudworks Holdings Limited Partnership ("**CHLP**"), and ownership of 50% of the issued and outstanding shares of Cloudworks Holdings Inc. ("**CHI**"), the general partner of CHLP. The balance of the limited partnership units of CHLP are owned by CC&L Infrastructure Limited Partnership ("**CC&L**") (34.99%), and by Fengate LPF GP Inc., as general partner of LPF Infrastructure Fund ("**LPF Fund**") which is managed by Fengate (15%). The balance of the shares of CHI (50%) is owned by CC&L Infrastructure Ltd. ("**CC&L GP**"), the general partner of CC&L.

Each of the Harrison Operating Facilities is wholly-owned by one of Douglas Creek Project Limited Partnership ("**DCPLP**"), Fire Creek Project Limited Partnership ("**FCPLP**"), Stokke Creek Project Limited Partnership ("**SCPLP**"), Tipella Creek Project Limited Partnership ("**TCPLP**"), Upper Stave Project Limited Partnership ("**USPLP**") and Lamont Creek Project Limited partnership ("**LCPLP**") (collectively, the "**Project LPs**"), which are in turn wholly-owned by Harrison Hydro Limited Partnership ("**HHLP**"), which is in turn wholly-owned by CHLP, which is in turn owned by Cloudworks (50.01%), CC&L (34.99%), and LPF Fund (15%).

CC&L and LPF Fund, as limited partners of CHLP, each own indirect minority interests in the Harrison Operating Facilities of 34.99% and 15%, respectively. CC&L invested indirectly in the Harrison Operating Facilities in 2006, contributing early development debt capital, which was later converted to units of CHLP, for the construction of the Harrison Operating Facilities. Based on publicly available information, CC&L Infrastructure Ltd., the general partner of CC&L, is a middle-market investment fund focused on infrastructure and infrastructure-like assets and companies with highly attractive risk-return characteristics, long lives and the potential to generate stable cash flow. CC&L Infrastructure Ltd. targets North American-based traditional (roads, bridges, terminals, etc.) and energy (power generation, electricity transmission, etc.) infrastructure projects ranging in size from $25 million to $750 million, at all stages of the development spectrum (development, construction and operating). CC&L is part of the Connor, Clark & Lunn Financial Group, whose affiliated investment managers are responsible for the investment of approximately $37 billion in assets on behalf of institutional, private and retail clients.

LPF Fund invested indirectly in the Harrison Operating Facilities in October 2007 by purchasing units in CHLP from Cloudworks. Based on publicly available information, LPF Fund is an investment fund managed by Fengate, an investment management firm specializing in originating and managing investments in the infrastructure and real estate sectors. Fengate's operations encompass asset management, real estate and infrastructure development, and commercial and residential property management across Canada and select markets in the United States.

Cloudworks, CC&L GP and CHI are parties to a shareholders' agreement which, inter alia, gives CC&L GP the right, in certain circumstances (including upon the Acquisition), to require Cloudworks and CHI to cause CHLP to be dissolved and to cause the units of HHLP to be distributed to the partners of CHLP pro-rata after the satisfaction of the liabilities of CHLP. The Corporation intends to initiate discussions in order to proceed with the dissolution of CHLP in an orderly and tax-efficient manner for all partners of CHLP but only to the extent that no default under the Bond Issue is caused by such dissolution. See "Risk Factors".

*Financing Structure and Bond Issue*

To finance the development, construction, commissioning, operation and maintenance of the Harrison Operating Facilities, Harrison Hydro Finance Inc. ("**HHFI**"), an entity owned by Harrison Environmental Trust ("**HET**"), completed a $518.4 million senior and junior bond issue (the "**Bond Issue**") consisting of both conventional fixed rate bonds and real return bonds pursuant to a trust indenture dated July 6, 2007 between The Bank of New York, as trustee (the "**Trustee**"), HHFI and the Harrison Entities (the "**Trust Indenture**").

The Bond Issue consists of the following tranches of debt (and their respective rate of interest):

- Series A - $245.2 million Series A Senior Real Return Bonds due June 1, 2049 (2.958% plus CPI);
- Series B - $246 million Series B Senior Fixed Rate Bonds due September 1, 2049 (5.564%); and
- Series C - $27.2 million Series C Junior Real Return Bonds due September 1, 2049 (4.273% plus CPI).

The proceeds of the Bond Issue were loaned by HHFI to HHLP. The other Harrison Entities have undertaken to make the required payments with respect to such loans to the extent that HHLP does not have sufficient funds to do so.

The Bond Issue is guaranteed by HHLP, Harrison Hydro Inc., the general partner of HHLP ("**HHI**"), the Project LPs and Harrison Hydro Project Inc., the general partner of each of the Project LPs ("**HHPI**"), (collectively, the "**Harrison Entities**"), and secured by all of the assets of HHFI and the Harrison Entities, including HHI's equity interest in HHLP, and HHPI's and HHLP's equity interests in the Project LPs. The Bond Issue is also secured by a limited guarantee granted by CHLP, with recourse limited to CHLP's equity interests in HHLP and HHI, and security agreements granted by each of the HET and CHLP with respect to all of HET's equity interests in HHFI, and all of CHLP's equity interests in HHLP and HHI, respectively. All guarantees and security are granted in favour of the Trustee, as trustee for the bond holders, or its security agent.

Neither Cloudworks, nor its shareholders, were required to guarantee, or provide security for, the Bond Issue, and the proposed acquisition of Cloudworks by the Corporation does not require the consent of the Trustee, the bond holders or any other party under the terms of the Trust Indenture and related security documents.

Payment obligations under the senior bonds are insured by an unconditional and irrevocable insurance policy issued by the Financial Guaranty Insurance Company ("**FGIC**"). In turn, HHFI and the Harrison Entities have unconditionally and irrevocably guaranteed reimbursement to FGIC for any payment made by FGIC to the Trustee pursuant to such insurance policy.

From and after completion of the Bond Issue, all revenues pertaining to the Harrison Operating Facilities, all amounts received or earned by the Harrison Entities and all amounts transferred out of the bond proceeds escrow account, unless otherwise specifically allocated to another account, are to be deposited to the credit of the proceeds account. From the proceeds account, payments or transfers are made, *inter alia*, to the disbursement account to be applied to budgeted costs and expenses in connection with the Harrison Operating Facilities, and to the major maintenance reserve account, the senior debt service payment account and the debt service reserve account.

Monies, securities and credits in the distribution account can be applied for any lawful purpose of HHLP and is the sole source of funds for the repayment of any subordinated debt, or distribution upon any equity financing. No amount in the proceeds account can be transferred to the distribution account at any time unless a number of conditions have been satisfied, including (i) the major maintenance reserve account, the hydrology reserve account and the debt service reserve account have been funded to required levels, (ii) a debt service coverage ratio has been met and (iii) the final COD has been achieved.

**Portfolio of Assets**

Cloudworks' portfolio is comprised of interests in three groups of power generating projects: (i) the Harrison Operating Facilities, or facilities with PPAs that have reached commercial operation and are now generating revenues by selling power to BC Hydro; (ii) the Cloudworks Development Projects, or development projects with PPAs that have planned dates for commencement of commercial operation and (iii) the Cloudworks Prospective Projects, or the run-of-river hydroelectric projects for which Cloudworks has secured certain land rights, for which an investigative permit application has been filed and for which a proposal has been submitted under a request for proposals or could be submitted under the BC Hydro SOP.

Cloudworks' portfolio of projects consists of interests in six Harrison Operating Facilities, the three Cloudworks Development Projects and the Cloudworks Prospective Projects. The tables below summarize the Harrison Operating Facilities and the Cloudworks Development Projects in which Cloudworks has an interest.

**Harrison Operating Facilities**

| Province | Type | Plant | Installed Capacity (MW) | Cloudworks Ownership Interest | Power Purchaser | Estimated Long Term Average Annual Generation (GWh) | PPA Remaining Term (years) |
|---|---|---|---|---|---|---|---|
| British Columbia | Hydro | Douglas Creek | 27 | 50.01% | BC Hydro | 92.6 | 39 |
| British Columbia | Hydro | Fire Creek | 23 | 50.01% | BC Hydro | 94.2 | 39 |
| British Columbia | Hydro | Stokke Creek | 22 | 50.01% | BC Hydro | 88.0 | 39 |
| British Columbia | Hydro | Tipella Creek | 18 | 50.01% | BC Hydro | 70.0 | 39 |
| British Columbia | Hydro | Upper Stave River | 33 | 50.01% | BC Hydro | 144.4 | 39 |
| British Columbia | Hydro | Lamont Creek | 27 | 50.01% | BC Hydro | 105.2 | 39 |
| Total | - | - | 150 | - | - | 594.4 | - |

The amount of energy generated by the Harrison Operating Facilities is generally dependant on the availability of water flows. Lower-than-expected water flows in any given year could have an impact on Cloudworks' revenues and hence on its profitability. Furthermore, given the nature of hydroelectric production, seasonal variations are partially offset, as illustrated in the following table for the Harrison Operating Facilities.

| Province | Plant | Installed Capacity (MW) | Estimated Long Term Average (GWh) (Figures based on 100% ownership) | | | | |
|---|---|---|---|---|---|---|---|
| | | | Q1 | Q2 | Q3 | Q4 | Total |
| British Columbia | Douglas Creek | 27 | 13.2 | 40.9 | 18.6 | 19.9 | 92.6 |
| British Columbia | Fire Creek | 23 | 17.3 | 40.6 | 18.6 | 17.7 | 94.2 |
| British Columbia | Stokke Creek | 22 | 12.4 | 37.2 | 23.2 | 15.2 | 88.0 |
| British Columbia | Tipella Creek | 18 | 8.8 | 29.0 | 18.8 | 13.4 | 70.0 |
| British Columbia | Upper Stave River | 33 | 16.0 | 53.8 | 47.4 | 27.2 | 144.4 |
| British Columbia | Lamont Creek | 27 | 17.2 | 41.0 | 23.7 | 23.3 | 105.2 |
| Total: | - | 150 | 84.9 | 242.5 | 150.3 | 116.7 | 594.4 |

**Cloudworks Development Projects**

| Province | Type | Plant | Expected Installed Capacity (MW) | Cloudworks Ownership Interest | Power Purchaser | Estimated Long Term Average Annual Generation (GWh) | Expected Commercial in-Service Date | PPA Term (years) |
|---|---|---|---|---|---|---|---|---|
| British Columbia | Hydro | Northwest Stave River | 17.5 | 100% | BC Hydro | 61.9 | December 1, 2013 | 40 |
| British Columbia | Hydro | Tretheway Creek | 21.2 | 100% | BC Hydro | 81.9 | December 1, 2015 | 40 |
| British Columbia | Hydro | Big Silver - Shovel Creek | 36.9 | 100% | BC Hydro | 147.1 | November 1, 2016 | 40 |
| Total | - | - | 75.6 | - | - | 290.9 | - | - |

**Description of the Harrison Operating Facilities**

The six operating facilities share the use of the Kwalsa substation and transmission line to interconnect to the BC Hydro transmission system at the UHT. The Kwalsa substation is located on fee simple lands that were granted to BC Hydro by Crown grant, and are now held by HHI, the general partner of HHLP, and HHPI, the general partner of each of the Project LPs, each as to an undivided half interest. There are three statutory rights of way for the transmission line granted in favour of HHPI that expire in 2051.

*Douglas Creek Project*

The Douglas Creek Project is a run-of-river hydroelectric facility with an installed capacity of 27 MW and an estimated yearly energy output of 92.6 GWh. Construction of the Douglas Creek Project facility commenced in May 2007 and the COD was achieved on October 19, 2009. The Douglas Creek Project uses the hydraulic resources of the lower reaches of Douglas Creek, with the point of diversion 3.1 km upstream from the powerhouse, which in turn is 1 km upstream of the confluence of Douglas Creek with Little Harrison Lake.

The Douglas Creek Project includes a small concrete diversion weir with a coanda style intake, approximately 334 m of low pressure conduit and 3,010 m of high pressure penstock, a 460 $m^2$ powerhouse and two 13.5 MW (installed) Pelton turbines with synchronous generators, switchgear, protection and controls. The gross head is 323.6 m and the drainage area is 103.2 $km^2$. Plant output is delivered by a 300 m long 138 kV transmission line to a 6.8 km transmission line that is shared with the Stokke Creek Project and then shares the 3.2 km Fire Creek Project transmission line to the UHT.

The Douglas Creek Project is owned by the DCPLP. DCPLP has one general partner, HHPI, which is wholly-owned by the sole limited partner of DCPLP, HHLP.

The Douglas Creek Project is authorized to divert and use water up to a maximum of 11.3 cubic metres per second from Douglas Creek in accordance with a water licence issued pursuant to the *Water Act* (British Columbia) on November 9, 2006. The water licence has been issued for a term of 40 years expiring on November 8, 2046.

The Douglas Creek Project is primarily located on reserve lands of the Douglas Indian Band known as Douglas Indian Reserve Number 8. The Douglas Indian Band applied to the Minister of Indian and Northern Development Canada (the "**MOI**") for the grant of a lease of two lots to the Takem Ti Qwelsa 7 Eco Resource Corporation ("**Takem Corp**") and for a sublease of one lot from Takem Corp to DCPLP, and for the sublease of the other lot from Takem Corp to HHLP, the limited partner of DCPLP. A referendum was held by the Douglas Indian Band to decide whether a portion of the Douglas Indian Reserve lands can be designated for the Douglas Creek Project, which referendum was successful.

A lease from MOI was granted to Takem Corp in 2006 for a term of 98 years, expiring in 2104. A sublease for the penstock, powerhouse and transmission lines, was entered into between Takem Corp and DCPLP in 2007 expiring on the earlier of: (i) August 29, 2104 and (ii) the 60th anniversary of the date on which commercial delivery of electricity begins from the Douglas Creek Project. A second lease from MOI was granted to Takem Corp in 2007 for a term of 97 years, expiring in 2104. A sublease was entered into between Takem Corp and HHLP in 2007, expiring in 2104.

A statutory right of way for the intake and penstock expiring in 2051 was granted in favour of HHPI, the general partner of DCPLP, in November 2009. A statutory right of way for a transmission line expiring in 2051 for both the Douglas Creek Project and the Stokke Creek Project was granted in favour of HHPI in November 2010. A statutory right of way for a transmission line for all six Harrison Operating Facilities expiring in 2051 was granted in favour of HHPI in September 2010.

*Fire Creek Project*

The Fire Creek Project is a run-of-river hydroelectric facility with an installed capacity of 23 MW and an estimated yearly energy output of 94.2 GWh. Construction of the Fire Creek Project facility commenced in May 2007 and the COD was achieved on October 19, 2009. The Fire Creek project uses the hydraulic resources of the lower reaches of Fire Creek, with the point of diversion 4.3 km upstream from the powerhouse, which in turn is 1 km upstream of the confluence of Fire Creek with the Lillooet River, 6 km upstream of its discharge into Harrison Lake.

The Fire Creek project includes a small concrete diversion weir with a coanda style intake, approximately 1,318 m of low pressure conduit and 3,122 m of high pressure penstock, a 460 $m^2$ powerhouse and installation of two 11.5 MW (installed) Pelton turbines with synchronous generators, switchgear, protection and controls. The gross head is 302.6 m and the drainage area is 104.3 $km^2$. Plant output is delivered by a 414 m long 138 kV transmission line to the 3.2 km transmission line shared with the Stokke Creek Project and the Douglas Creek Project to the UHT.

The Fire Creek Project is owned by the FCPLP. FCPLP has one general partner, HHPI, which is wholly-owned by the sole limited partner of FCPLP, HHLP.

The Fire Creek Project is authorized to divert and use water up to a maximum of 10.5 cubic metres per second from Fire Creek in accordance with a water licence issued pursuant to the *Water Act* (British Columbia) in 2005. The water licence was issued for a term of 40 years expiring in 2045.

The Fire Creek Project is located on public land. A Crown lease for the powerhouse expiring in 2051 was granted in favour of HHPI, the general partner of FCPLP, in 2008. A statutory right of way for the penstock expiring in 2051 was granted in favour of HHPI in 2009. The Fire Creek Project shares a statutory right of way for the transmission line with the other Harrison Operating Facilities.

*Stokke Creek Project*

The Stokke Creek Project is a run-of-river hydroelectric facility with an installed capacity of 22 MW and an estimated yearly energy output of 88 GWh. Construction of the Fire Creek Project facility commenced in May 2007 and the COD was achieved on October 19, 2009. The Stokke Creek Project uses the hydraulic resources of the lower reaches of Stokke Creek, with the point of diversion 2 km upstream from upstream from the powerhouse, which in turn is 500 m upstream of the confluence of Stokke Creek with the Harrison Lake.

The Stokke Creek Project includes a small concrete diversion weir and coanda style intake and collection box, approximately 2,200 m of high pressure penstock, a 460 $m^2$ powerhouse and two 11 MW (installed) Pelton turbines with synchronous generators, switchgear, protection and controls. The gross head is 318.2 m and the drainage area is 73.5 $km^2$. Plant output is delivered by a 11 km long 138 kV transmission line to the Douglas Creek Project from where it shares a 6.8 km long 138 kV line to Fire Creek Project, with the final 3.2 km 138 kV line shared by the three projects.

The Stokke Creek Project is owned by the SCPLP. SCPLP has one general partner, HHPI, which is wholly-owned by the sole limited partner of SCPLP, HHLP.

The Stokke Creek Project is authorized to divert and use water up to a maximum of 8.4 cubic metres per second from Stokke Creek in accordance with a water licence issued pursuant to the *Water Act* (British Columbia) in 2006. The water licence has been issued for a term of 40 years expiring in 2046.

The Stokke Creek Project is located on public land. A Crown lease for the powerhouse expiring in 2051 was granted in favour of HHPI, the general partner of SCPLP, in 2008. A statutory right of way for the penstock expiring in 2050 was granted in favour of HHPI in 2009. A statutory right of way for the transmission line expiring in 2051 was granted in favour of HHPI in 2009. The Stokke Creek Project also shares in statutory rights of way in relation to its transmission line.

*Tipella Creek Project*

The Tipella Creek Project is a run-of-river hydroelectric facility with an installed capacity of 18 MW and an estimated yearly energy output of 70 GWh. Construction of the Tipella Creek Project facility commenced in May 2007 and the COD was achieved on October 19, 2009. The Tipella Creek Project uses the hydraulic resources of the lower reaches of Tipella Creek, with the point of diversion 2.4 km upstream from the powerhouse which in turn is 600 m upstream of the confluence of Tipella Creek with Harrison Lake.

The Tipella Creek Project includes a small concrete diversion weir with a coanda style intake, approximately 523 m of low pressure penstock and 1,790 m of high pressure penstock, a 460 $m^2$ powerhouse and two 9 MW (installed) Pelton turbines with synchronous generators, switchgear, protection and controls. The gross head is 297.2 m and the drainage area is 62.6 $km^2$. Plant output is delivered by a 4 km long 138 kV transmission line to the UHT.

The Tipella Creek Project is owned by the TCPLP. TCPLP has one general partner, HHPI, which is wholly-owned by the sole limited partner of TCPLP, HHLP.

The Tipella Creek Project is authorized to divert and use water up to a maximum of 7.2 cubic metres per second from Tipella Creek in accordance with a water licence issued pursuant to the *Water Act* (British Columbia) in 2006. The water licence has been issued for a term of 40 years expiring in 2046.

The Tipella Creek Project is located on public land. A Crown lease for the powerhouse expiring in 2051 was granted in favour of HHPI, the general partner of TCPLP, in 2009. The lease expires on January 24, 2051. A statutory right of way for the penstock expiring in 2051 was granted in favour of HHPI in 2009. A statutory right of way for the transmission line expiring in 2051 was granted in favour of HHPI in 2010. The Tipella Creek Project shares in statutory rights of way in relation to its transmission line.

*Upper Stave River Project*

The Upper Stave River Project is a run-of-river hydroelectric facility with an installed capacity of 33 MW and an estimated yearly energy output of 144.4 GWh. Construction of the Upper Stave River Project commenced in May 2007 and the COD was achieved on November 2, 2009. The Upper Stave River Project uses the hydraulic resources of the middle reach of the Stave River, with the point of diversion 1.9 km upstream from the powerhouse, which in turn is 18 km upstream of the discharge of Stave River into Stave Lake.

The Upper Stave River Project includes a small concrete overflow diversion weir (spillway with rubber dam) with a side intake followed by an extended desilting basin/sediment chamber, approximately 1,817 m of high pressure penstock, a 1,130 $m^2$ powerhouse and three 10 MW (installed) Francis turbines and one 3 MW (installed) Francis turbine, all with synchronous generators, switchgear, protection and controls. The gross head is 101.8 m and the drainage area is 222.3 $km^2$. Plant output is delivered by a 37.1 km long 138 kV transmission line of which it shares 36.5 km with Lamont Creek Project to the UHT.

The Upper Stave River Project is owned by the USPLP. USPLP has one general partner, HHPI, which is wholly-owned by the sole limited partner of USPLP, HHLP.

The Upper Stave River Project is authorized to divert and use water up to a maximum of 43.8 cubic metres per second from Stave River in accordance with a water licence issued pursuant to the *Water Act* (British Columbia) in 2006. The water licence has been issued for a term of 40 years expiring in 2046

The Upper Stave River Project is located on public land. A Crown lease for the powerhouse expiring in 2052 was granted in favour of HHPI, the general partner of USPLP, in 2009. A statutory right of way for the penstock expiring in 2052 was granted in favour of HHPI in 2009. The Upper Stave River Project shares in a statutory right of way in relation to its transmission line.

*Lamont Creek Project*

The Lamont Creek Project facility is a run-of-river hydroelectric facility with an installed capacity of 27 MW and an estimated yearly energy output of 105.2 GWh. Construction of the Lamont Creek Project facility commenced in May 2007 and the COD was achieved on November 2, 2009. The Lamont Creek Project uses hydraulic resources of the lower reaches of Lamont Creek with the point of diversion 3.5 km upstream from the powerhouse, which in turn is 60 m upstream of the confluence of Lamont Creek with the Stave River.

The Lamont Creek Project includes a small concrete diversion weir with a coanda style intake, approximately 3,194 m of high pressure penstock, a 490 $m^2$ powerhouse and two 13.5 MW (installed) Pelton turbines with synchronous generators, switchgear, protection and controls. The gross head is 410.2 m and the drainage area is 49.9 $km^2$. Plant output is delivered by a 590 m 138 kV transmission line to the Upper Stave River Project transmission line that is shared for 36.5 km to the UHT.

The Lamont Creek Project is owned by the LCPLP. LCPLP has one general partner, HHPI, which is wholly-owned by the sole limited partner of LCPLP, HHLP.

The Lamont Creek Project is authorized to divert and use water up to a maximum of 8.7 cubic metres per second from Lamont Creek in accordance with a water licence issued pursuant to the *Water Act* (British Columbia) in 2006. The water licence has been issued for a term of 40 years expiring in 2046.

The Lamont Creek Project is located on public land. A Crown lease for the powerhouse expiring in 2052 was granted in favour of HHPI, the general partner of LCPLP, in 2009. A statutory right of way for the intake and penstock expiring in 2052 was granted in favour of HHPI in 2009. The Lamont Creek Project shares in a statutory right of way in relation to its transmission line.

*PPA for the Harrison Operating Facilities*

BC Hydro has committed to purchase power produced by the Harrison Operating Facilities pursuant to two 40-year PPAs. One PPA is in respect of four projects grouped under the name Kwalsa Projects, which has an aggregate installed capacity of 90 MW: the Douglas Creek Project, the Fire Creek Project, the Stokke Creek Project and the Tipella Creed Project. The other PPA is in respect of two projects grouped under the name Upper Stave Projects, which has an aggregate installed capacity of 60 MW, namely, the Upper Stave River Project and the Lamont Creek Project. The Corporation expects the Harrison Operating Facilities, 50.01% of which are indirectly owned by Cloudworks, to generate approximately $47 million in revenues annually. The average price for electricity purchased under the PPAs for the Harrison Operating Facilities is adjusted annually by a portion of CPI.

*ecoENERGY Initiative*

The Harrison Operating Facilities are eligible for funding under two contribution agreements regarding the Federal Government's ecoENERGY Initiative intended to support renewable energy in Canada. The ecoENERGY Initiative will provide a $10 per MWh incentive payment for the facilities' first ten years of operation. The annual incentive payment for the Kwalsa Projects and the Upper Stave Projects will depend on whether the energy production in four consecutive quarters of the first eight quarters of production exceeds a certain threshold. The Kwalsa Projects have already met the threshold and will be entitled to the maximum annual incentive payment of approximately $3.45 million per year. The Upper Stave Projects have not been in production for sufficient time to achieve the threshold for a maximum annual incentive payment of $2.50 million per year but is expected to achieve the level of production required for the maximum annual incentive payment.

*Obligations under Participation Agreements with Douglas First Nation and Chehalis Indian Band*

HHLP, the Project LPs and the Douglas First Nation have entered into a participation agreement regarding the Harrison Operating Facilities. Pursuant to this agreement, the Douglas First Nation is entitled to an escalating royalty based on the gross revenues from each of the Harrison Operating Facilities once such project achieves commercial operation, an additional royalty based on the gross revenues from each Harrison Operating Facility in any year in which the average price paid exceeds a certain threshold, a payment in the context of a liquidity event and other payments.

HHLP, SCPLP and TCPLP also entered into a participation agreement with the Chehalis Indian Band. Pursuant to this agreement, the Chehalis Indian Band is entitled to an escalating royalty based on the gross revenues from each of the Stokke Creek Project and Tipella Creek Project once each project achieves commercial operation and an additional royalty based on the gross revenues from the Stokke Creek Project and Tipella Creek Project in any year in which the average price paid exceeds a certain threshold.

**Description of Cloudworks Development Projects**

*Northwest Stave Project (100% ownership)*

The Northwest Stave River Project is a proposed run-of-river hydroelectric power generating facility with an expected installed capacity of 17.5 MW and an estimated yearly energy output of 61.9 GWh. It is located approximately 35 km north of Mission, British Columbia. Construction of the Northwest Stave River Project is expected to commence in June 2011 and is expected to commence commercial operation in November 2013. The generating equipment, which will be fed by a 200 m long low pressure conduit connected to a 1,040 m long penstock and a design flow of 29 cubic metres per second, is expected to be comprised of three Francis turbines: two turbines with a maximum designated flow of 12.5 cubic metres per second and rated unit capacity of 7.4 MW, and one turbine with a maximum designated flow of 4.5 cubic metres per second and a rated unit capacity of 2.7 MW. The Northwest Stave Project is expected to include a 2.2 km-long 138 kV transmission line to the existing Upper Stave Projects transmission line.

Cloudworks has obtained a conditional water license dated November 21, 2008 to divert and use water up to a maximum of 31.5 $m^3$ per second from the Northwest Stave River. The Northwest Stave River Project is located on Crown land that is subject to a licence of occupation pursuant to the *Land Act*. The licence commenced on December 1, 2009 and has a term of three years, expiring on November 30, 2012. Such licence of occupation will be replaced by a long term registered lease for the powerhouse and statutory rights of way for the transmission line, penstock and intake. Such Crown land tenures are expected to have a term consistent with the term of the PPAs.

BC Hydro has committed to purchase power produced by the Northwest Stave River Project pursuant to a 40-year PPA. BC Hydro has indicated that the hydro projects awarded PPAs under the latest clean power call, under which the PPA for the Northwest Stave Project was awarded, had a range of firm energy bid price from $95 to $156 per MWh, with a weighted average firm energy bid price of $139.90 per MWh.

*Tretheway Creek Project (100% ownership)*

The Tretheway Creek Project is a proposed run-of-river hydroelectric power generating facility with an expected installed capacity of 21.2 MW and an estimated yearly energy output of 81.9 GWh. It is located approximately 50 km north of Harrison Hot Springs, British Columbia. Construction of the Tretheway Creek Project is expected to commence in May 2013 and commercial operation is expected to commence in November 2015. The generating equipment, which will be fed by a 4,730m long penstock and a design flow of 11.4 cubic metres per second, is expected to be comprised of three 7.1 MW Pelton turbines. The Tretheway Creek Project is expected to include an 8 km-long 138 kV transmission line from the project substation to the existing Tipella Creek Project transmission line.

Cloudworks has applied for a water license to divert and use water up to a maximum of 17$m^3$ per second from Tretheway Creek. The initial application was made on October 14, 2005. All permits necessary for the construction of the project are expected to be obtained by April 2013. Upon completion of the project, the license of occupation expected to be obtained for the initial development of the project will be converted into a lease for the area of land beneath the powerhouse and into statutory rights of way or long-term licenses of occupation for the penstock, intake and transmission line areas.

BC Hydro has committed to purchase power produced by the Tretheway Creek Project pursuant to a 40-year PPA. BC Hydro has indicated that the hydro projects awarded PPAs under the latest clean power call, under which the PPA for the Tretheway Creek Project was awarded, had a range of firm energy bid price from $95 to $156 per MWh, with a weighted average firm energy bid price of $139.90 per MWh.

*Big Silver-Shovel Creek Project (100% ownership)*

The Big Silver-Shovel Creek Project is a proposed run-of-river hydroelectric power generating facility with an expected installed capacity of 36.9 MW and an estimated yearly energy output of 147.1 GWh. It is located approximately 40 km north of Harrison Hot Springs, British Columbia. Construction of the Big Silver-Shovel Creek Project is expected to commence in May 2014 and commercial operation is expected to commence in November 2016.

The Big Silver Creek generating equipment, which will be fed by a 3,140 m long penstock and a design flow of 26 cubic metres per second, is expected to be comprised of three Francis turbines (two of 9.3 MW, one of 5.6 MW) capable of producing an expected annual energy output of 111.2 GWh. The Big Silver Creek generating equipment will include a 36 km-long 138 kV transmission line from the project substation to the existing Tipella Creek Project transmission line. The Shovel Creek generating equipment, which will be fed by a 2.6 km-long penstock, is expected to be comprised of two 6.3 MW Francis turbines capable of producing an expected annual energy output of 35.9 GWh. The Shovel Creek generating equipment is expected to include a 10 km-long 138 kV transmission line from the project substation to the Big Silver Project transmission line.

Cloudworks has applied for a water licence to divert and use water up to a maximum of 40.4 and 23 cubic metres per second from Big Silver Creek and the Shovel Creek respectively. The initial application was made on November 9, 2007. All permits necessary for the construction of the project are expected to be obtained by March 2014. Upon completion of the project, the licences of occupation expected to be obtained for the initial development of the projects will be converted into leases for the area of land beneath the powerhouses and into statutory rights of way or long-term licences of occupation for the penstock, intake and transmission line areas.

BC Hydro has committed to purchase power produced by the Big Silver-Shovel Creek Project pursuant to a 40-year PPA. BC Hydro has indicated that the hydro projects awarded PPAs under the latest clean power call, under which the PPA for the Big Silver-Shovel Creek Project was awarded, had a range of firm energy bid price from $95 to $156 per MWh, with a weighted average firm energy bid price of $139.90 per MWh.

*Shared Transmission and Interconnection Infrastructure*

Cloudworks has entered into a transmission agreement with HHLP to provide for the shared use of portions of the transmission and interconnection infrastructure used by the Harrison Operating Facilities in order that electrical energy which will be produced by the Cloudworks Development Projects can be transmitted to the point of interconnection of the Cloudworks Development Projects and the BC Hydro transmission system at BC Hydro's Upper Harrison Terminal substation. In accordance with the terms of the transmission agreement, all required consents of CC&L must be obtained in order for such shared use of transmission and interconnection infrastructure to proceed. See "Risk Factors — Risks Related to the Acquisition and Cloudworks".

*Participation Agreements with Douglas First Nation and Chehalis Indian Band*

Cloudworks and the Douglas First Nation have entered into a participation agreement regarding the Upper Fire project and the Northwest Stave project. Pursuant to this agreement, the Douglas First Nation is entitled to an escalating royalty based on the gross revenues from each of the Upper Fire and Northwest Stave projects once such projects achieve commercial operation, an additional royalty based on the gross revenues from each such project in any year in which the average price paid exceeds a certain threshold, a payment in the context of certain liquidity events and other payments.

Cloudworks is currently in negotiations with the Douglas First Nation regarding participation agreements for projects on Tretheway Creek, Shovel Creek and Big Silver Creek.

Cloudworks also entered into participation agreements with the Chehalis Indian Band for each of the projects on Tretheway Creek, Big Silver Creek and Shovel Creek. Pursuant to these agreements, the Chehalis Indian Band is entitled to a royalty based on the gross revenues from a project once such project achieves commercial operation and until the expiry of the first PPA entered into by Cloudworks in connection with such project and other payments.

**Description of Cloudworks Prospective Projects**

The Cloudworks Prospective Projects, with a combined potential net installed capacity of over 800 MW, consist of various run-of-river hydroelectric projects for which Cloudworks has secured certain land rights, for which an investigative permit application has been filed and for which a proposal has been submitted under a request for proposals or could be submitted under the BC Hydro SOP. The Cloudworks Prospective Projects will be available for future RFP yet to be announced. Other Cloudworks Prospective Projects may be submitted into BC Hydro SOP. The BC Hydro SOP was put in place to encourage the development of small and clean or renewable energy projects in British Columbia (currently limited to an installed capacity of 15 MW) by streamlining the application process for an electricity purchase agreement with BC Hydro and simplifying the form of electricity purchase agreement. There is no certainty that any one Cloudworks Prospective Project will be realized.

**Share Purchase Agreement**

The following is a summary of the material terms of the Share Purchase Agreement. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Share Purchase Agreement, a copy of which has been filed with the securities regulatory authorities in Canada.

*Purchase Price*

The Purchase Price payable by the Corporation to the Vendors for the Cloudworks Shares is an amount equal to $185 million less deductions for amounts payable by the Corporation upon the Acquisition Closing in respect of (a) outstanding indebtedness of Cloudworks, (b) payments to repurchase at the Acquisition Closing the outstanding options of Cloudworks and (c) certain third party payments, plus an amount in respect of payments made to third parties in connection with the development of certain power projects, subject to adjustment as set out in the Share Purchase Agreement. In addition, the Corporation has agreed to pay the Conditional Deferred Payments described below.

The Purchase Price will be payable as follows: (i) approximately $145.7 million (including payments to Cloudworks optionholders and certain third parties made by the Corporation on behalf of Cloudworks) in cash on or before the Time of Closing (approximately $7.9 million of which will be subject to a holdback with respect to a working capital adjustment); and (ii) $39.3 million by the issuance and delivery at the Time of Closing of Common Shares to be issued by way of private placement to certain shareholders of Cloudworks based on a price of $9.7549 per Common Shares (being the 20-day volume-weighted average trading price of the Common Shares on the TSX prior to the public announcement of the Acquisition) (the "**Consideration Shares**").

*Conditional Deferred Payments*

The Share Purchase Agreement provides for the potential payment of additional amounts to the Vendors over a period of more than 40 years from the Acquisition Closing Date to the 40th anniversary of the last Cloudworks Development Project to achieve COD (or the 50th anniversary of the Acquisition Closing Date if that date is earlier). Such potential deferred payments are divided into four categories: (i) deferred operating facilities payments; (ii) deferred development projects payments; (iii) deferred terminal value payment; and (iv) deferred prospective projects payments. The deferred payments are effectively intended to provide for a potential sharing of the value created if Cloudworks' portfolio of assets performs better than the Corporation's expectations and would result in incremental accretion to the Corporation, net of these payments See "Risk Factors — Risks Related to the Acquisition and Cloudworks".

The maximum aggregate amount of all deferred payments under the Share Purchase Agreement is limited to a present value amount of $35 million, and for the purpose of applying such maximum aggregate payment amount, the amount of any deferred payment made is discounted to its present value amount by applying a mutually agreed upon discount rate per annum. The Corporation has the right, at any time during the five-year period after the Acquisition Closing Date, to extinguish all its obligations to make deferred payments by making a one-time payment of the amount by which the maximum aggregate amount of deferred payments of $35 million exceeds the present value of any deferred payments (discounted to their present value amounts by applying an agreed discount rate per annum) made prior to the exercise of such right by the Corporation.

Deferred operating facilities payments may be payable every five years following the Acquisition Closing Date until the expiry of the current 40-year term of the two PPAs for the Harrison Operating Facilities on November 2, 2049. A deferred operating facilities payment is made if the actual gross revenues generated by the Harrison Operating Facilities from the sale of electricity to BC Hydro (less any liquidated damages paid to BC Hydro) less the cash debt service costs in respect of the financing provided from the Bond Issue, exceeds the estimated amount of revenues from the Harrison Operating Facilities agreed between upon the parties. The payment is 75% of Cloudworks' ownership share of the Harrison Operating Facilities (50.01%) of the amount by which actual revenues exceed estimated revenues from the Harrison Operating Facilities. The Corporation expects that a deferred operating facilities payment will be payable principally if the hydrology – or average water flows – for the Harrison Operating Facilities is better than estimated over a five-year period for the calculation of such a payment.

Deferred development projects payments may be payable every five years following the date the first Cloudworks Development Project achieves COD until the 40th anniversary of the last Cloudworks Development Project to achieve COD, or the 50th anniversary of the Acquisition Closing Date if that date is earlier. A deferred development projects payment is made if the distributable cash flows from the Cloudworks Development Projects, if distributed, and when taken together with the fair market value of the Cloudworks Development Projects at the end of the period for the calculation of deferred development projects payments, would represent a return on investment that exceeds the mutually agreed upon internal rate of return on investment per annum on any equity contributed to fund the development, construction and operation of the Cloudworks

Development Projects. The payment is a percentage of cash flows in excess of that which would represent the mutually agreed upon return on investment per annum.

A deferred terminal value payment may be payable following the expiry of the current 40-year term of the two PPAs for the Harrison Operating Facilities on November 2, 2049. The payment is 75% of Cloudworks' ownership share of the Harrison Operating Facilities (50.01%) of the amount by which the fair market value of the Harrison Operating Facilities as of the end of the current term of the two PPAs as determined by the valuators exceeds the estimated fair market value agreed upon by the parties in the Share Purchase Agreement.

Deferred prospective projects payments are payable upon the completion of a financing or the commencement of construction in respect of a Cloudworks Prospective Project on or before the 10th anniversary of the Acquisition Closing Date. The payment is $100,000 per megawatt of the capacity of such Cloudworks Prospective Project, subject to a maximum aggregate payment for all Cloudworks Prospective Projects equal to a present value amount of $2.5 million.

While the deferred payments remain payable, the Corporation is restricted from selling or allowing the Harrison Operating Facilities, the Cloudworks Development Projects and the Cloudworks Prospective Projects to be sold except that: (i) the projects may be sold to affiliates that assume the obligations for the deferred payments; (ii) a project may be sold once it can no longer be the source of a deferred payment; and (iii) a project may be sold if the Corporation makes a specified payment per project sold, such payment amount to be adjusted for CPI.

*Representations and Warranties*

The Share Purchase Agreement contains representations and warranties made severally by each of the Vendors in favour of the Corporation that are customary, but limited, for a transaction of this nature, including, inter alia, with respect to: free and clear ownership of the Cloudworks Shares; authority to enter into and deliver the Share Purchase Agreement and transfer ownership of the Cloudworks Shares; no undisclosed encumbrances; no default under constating documents, agreements or applicable law; validity and enforceability; Vendors' residency and qualifications with respect to the issuance and delivery of the Consideration Shares to the Vendors. The Vendors have not provided representations and warranties with respect to the assets or business of Cloudworks.

The Share Purchase Agreement contains representations and warranties made jointly and severally by the Cloudworks Principals in favour of the Corporation that are customary for a transaction of this nature, including, inter alia, with respect to: general corporate matters, including organization and good standing; capitalization; no default under constating documents, agreements or applicable law; access to and accuracy of information; financial statements; absence of undisclosed liabilities; absence of certain changes and events; ownership of assets; material contracts; taxation matters; employment matters; environmental matters; required filings and consents; absence of claims and compliance with laws.

*Closing Conditions*

The Acquisition Closing is subject to the following conditions for the benefit of the Corporation, which are to be performed or complied with at or prior to the Time of Closing: the representations and warranties of the Vendors and the Cloudworks Principals will be true and correct at the Time of Closing; Cloudworks, certain Cloudworks Principals and the Vendors will have performed required obligations; required approvals under the *Competition Act* and consents and approvals from other governmental authorities and third parties will have been obtained; no proceeding in Canada will be pending or threatened that restricts or prohibits the Acquisition Closing, the right of Cloudworks to conduct its business or the right of its subsidiaries to operate the Harrison Operating Facilities; no material adverse effect will have occurred; the resignation of certain directors and officers of Cloudworks and the General Partners (as defined in the Share Purchase Agreement) will have occurred; all necessary steps will have been taken to permit the Cloudworks Shares to be transferred; the transfer of certain excluded assets by Cloudworks to another company owned by the Vendors will have been completed; all outstanding options of Cloudworks will have been surrendered for cancellation; Cloudworks will have obtained a release in respect of certain outstanding indebtedness and security; a non-competition agreement will have been entered into by each of the Cloudworks Principals in favour of Cloudworks and the Corporation; and the Corporation will have received a legal opinion from the Vendors' counsel.

The Acquisition Closing is also subject to the following conditions for the benefit of the Vendors, which are to be performed or complied with at or prior to the Time of Closing: the representations and warranties of the Corporation will be true and correct at the Time of Closing; the Corporation will have performed required obligations; the Consideration Shares will have been conditionally approved for listing on the TSX; required approvals under the *Competition Act* will have been obtained; and the Vendors will have received a legal opinion from the Corporation's counsel.

*Termination Provisions*

The Share Purchase Agreement may be terminated, by notice given prior to or at the completion of the sale and purchase of the Cloudworks Shares: by the Vendors or the Corporation in the event of material breach by the other; by the Corporation or the Vendors if any closing condition for its or their benefit has not been satisfied as of the Acquisition Closing Date or satisfaction of same becomes impossible; by written agreement of the parties; or by the Vendors or the Corporation if the completion of the sale and purchase of the Cloudworks Shares has not occurred (other than through the failure of the party seeking to terminate the Share Purchase Agreement to comply fully with its obligations under such agreement) on or before March 31, 2011 or such other date as agreed by the Corporation and the Cloudworks Principals.

*Indemnity Provisions*

Under the terms of the Share Purchase Agreement, each of the Vendors will severally, in proportion to such Vendor's proportionate share of the Purchase Price, indemnify Cloudworks, the Corporation and its directors, officers, employees and agents from any breaches of its representations, warranties and covenants contained in the Share Purchase Agreement.

In addition, the Cloudworks Principals will jointly and severally indemnify Cloudworks, the Corporation and its directors, officers, employees and agents from any breaches of their representations, warranties and covenants contained in the Share Purchase Agreement, any liabilities for taxes owing by Cloudworks in connection with the pre-closing asset transfer not reflected in the working capital statement and certain other enumerated liabilities. Notice of claims under such indemnity provisions must be given within 24 months following the Acquisition Closing Date (or, in the case of a claim relating to the breach of a post-closing covenant, 24 months following the date of such breach), except for claims arising from breach of a representation or warranty related to ownership of the Cloudworks Shares or the organization and good standing of Cloudworks, liabilities for taxes owing by Cloudworks in connection with the pre-closing asset transfer not reflected in the working capital statement and certain other enumerated liabilities, or any fraud by the Vendors or the Cloudworks Principal, for which there is no time limit. Further, neither the Vendors nor the Cloudworks Principals will be liable under the indemnity provisions for breach of a representation to warranty, other than representations or warranties related to ownership of the Cloudworks Shares, the organization and good standing of Cloudworks or tax matters or any fraud, unless and until the aggregate of all losses arising from such breaches exceeds $1.6 million.

Except with respect to claims relating to breaches of representations or warranties related to ownership of the Cloudworks Shares or any fraud, the maximum individual liability of each Vendor under the indemnity provisions of the Share Purchase Agreement is limited to the product of such Vendor's proportionate share of the Purchase Price multiplied by 20% of the Purchase Price, provided that such Vendor will not be required to make aggregate cash payments in satisfaction of such liability amounting to more than 15% of the Purchase Price, with any liability above this amount recoverable only through set-off against the deferred payment obligations of the Corporation described above. Except with respect to claims relating to any fraud, the maximum aggregate liability of the Cloudworks Principals under the indemnity provisions of the Share Purchase Agreement is limited to 20% of the Purchase Price, provided that the Cloudworks Principals will not be required to make aggregate cash payments in satisfaction of such liability amounting to more than 15% of the Purchase Price, with any liability above this amount recoverable only through set-off against the deferred payment obligations of the Corporation described above.

*Non-Competition and Non-Solicitation Agreement*

The Share Purchase Agreement provides that, on the Acquisition Closing, a non-competition and non-solicitation agreement will be entered into between the Cloudworks Principals and the Corporation pursuant to which the Cloudworks Principals shall not, from the date of the agreement until two years following the termination of the Cloudworks Principals' services to Cloudworks compete with Cloudworks or the Corporation or solicit directors, officers, employees or consultants of Cloudworks.

## SELECTED HISTORICAL AND PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth selected historical and pro forma consolidated financial information. The selected financial information in the tables should be read in conjunction with, and is qualified in its entirety by, the Corporation's audited and unaudited consolidated financial statements and the notes thereto incorporated by reference in this short form prospectus, and the section of this short form prospectus titled "Unaudited pro forma condensed consolidated financial statements".

The unaudited pro forma consolidated financial information for the nine-month period ended September 30, 2010 included in the tables below, give effect to the Acquisition as well as to the Offering (assuming no exercise of the Over-Allotment Option), as described in this short form prospectus, as if these events had occurred on January 1, 2009 for the consolidated statements of earnings and on September 30, 2010 for the consolidated balance sheet.

**Consolidated Statements of Earnings**
(in thousands of dollars)

| | Corporation (before Cloudworks)(4) | Cloudworks | Corporation (after giving effect to the Acquisition and the Offering)(1)(3)(4) |
|---|---|---|---|
| | Nine-months periods ended September 30, 2010 | | |
| | $ (unaudited) | $ (unaudited) | $ (unaudited) |
| **Revenues** | 69,464 | 42,215 | 111,679 |
| Expenses | 16,800 | 4,463 | 20,842 |
| **Earnings from operations** | **52,664** | **37,752** | **90,837** |
| Prospective projects expenses | 1,639 | 9,772 | 11,821 |
| **Earnings before interests, income taxes, depreciation and amortization and other items** | **51,025** | **27,980** | **79,016** |
| Interest on long-term debt and convertible debentures | 18,431 | 20,856 | 40,158 |
| Depreciation and amortization | 25,491 | 10,340 | 35,875 |
| Unrealized net loss on derivative financial instruments | 37,077 | - | 37,077 |
| Other elements | (766) | (1,794) | (2,560) |
| **Loss before income taxes** | **(29,208)** | **(1,422)** | **(31,534)** |
| Recovery of income taxes | (7,166) | (655) | (8,769) |
| **Net loss** | **(22,042)** | **(767)** | **(22,765)** |
| **Basic and diluted net loss per share** | **(0.37)** | **N/A(5)** | **(0.28)** |
| | | | |
| **Other financial data** | | | |
| EBITDA(2) | 51,025 | 27,980 | 79,016 |

**Consolidated Balance Sheet**
(in thousands of dollars)

| | Corporation (before Cloudworks) | Cloudworks | Corporation (after giving effect to the Acquisition and the Offering)(1)(3) |
|---|---|---|---|
| | As at September 30, 2010 | | |
| | $ (unaudited) | $ (unaudited) | $ (unaudited) |
| Cash and Cash equivalents | 37,711 | 1,268 | 45,126 |
| Restricted cash and short-term investments | - | 77,743 | 77,743 |
| Reserve Accounts (including current portion) | 21,460 | 26,120 | 47,580 |
| Property, plant and equipment | 608,908 | 445,348 | 1,054,256 |
| Project development costs | 15,738 | 7,287 | 104,165 |
| Total assets | 913,715 | 597,776 (3) | 1,723,744 (3) |
| Long-term debt and convertible debentures (including current portion) | 423,546 | 530,934 | 919,680 |
| Shareholders' equity (deficit) | 343,099 | (7,616) | 535,246 |

Notes:

(1) Assuming no exercise of the Over-Allotment Option.

(2) EBITDA is a non-Canadian GAAP financial measure. See "Non-Canadian GAAP Earnings Measure".

(3) Includes the consolidation of 100% of the Harrison Operating Facilities in which Cloudworks holds a 50.01% indirect interest, including the non-recourse Bond Issue with respect to the Harrison Operating Facilities. Based on its 50.01% indirect interest in the Harrison Operating Facilities, the share of Cloudworks and of the Corporation of such non-recourse debt is approximately $248 million. See "Acquisition — Organizational and Financial Structure".

(4) The information is provided pro forma, after the Combination. See "Recent Developments".

(5) Cloudworks' earnings per share is not available.

## RECONCILIATION OF NET EARNINGS TO EBITDA

The following chart reconciles net earnings to EBITDA for the Corporation, Cloudworks and the Corporation after giving effect to the Acquisition as well as the Offering. Such reconciliation is based on the financial statements of the Corporation and Cloudworks and uses the Corporation's definition of EBITDA. See also "Non-Canadian GAAP".

**Reconciliation of Net Earnings to EBITDA**
(in thousands of dollars)

| | Corporation(1) | Cloudworks | Corporation (after giving effect to the Acquisition and the Offering)(2)(3)(1) |
|---|---|---|---|
| | Nine-month periods ended September 30, 2010 | | |
| | $ (unaudited) | $ (unaudited) | $ (unaudited) |
| **Net loss** | **(22,042)** | **(767)** | **(22,765)** |
| Recovery of income taxes | (7,166) | (655) | (8,769) |
| Unrealized foreign exchange gain | (6) | - | (6) |
| Expenses related to royalty agreement upon share exchange arrangement | 983 | - | 983 |
| Unrealized net loss on derivative financial instruments(4) | 37,077 | - | 37,077 |
| Depreciation and amortization | 25,491 | 10,340 | 35,875 |
| Other net revenues | (1,162) | (1,794) | (2,956) |
| Realized foreign exchange gain | (26) | - | (26) |
| Realized gain on derivative financial instruments | (555) | - | (555) |
| Interest on long-term debt and convertible debentures | 18,431 | 20,856 | 40,158 |
| **EBITDA(5)** | **51,025** | **27,980** | **79,016** |

Notes:

(1) The information is provided pro forma, after the Combination. See "Recent Developments".

(2) Assuming no exercise of the Over-Allotment Option.

(3) Includes the consolidation of 100% of the Harrison Operating Facilities in which Cloudworks holds a 50.01% indirect interest, including the non-recourse Bond Issue with respect to the Harrison Operating Facilities. Based on its 50.01% indirect interest in the Harrison Operating Facilities, the share of Cloudworks and of the Corporation of such non-recourse debt is approximately $248 million. See "Acquisition — Organizational and Financial Structure".

(4) The Corporation uses financial instruments to manage its exposure to the risk of rising interest rates on its long-term debt, thereby protecting the economic value of its projects. The Corporation does not use hedge accounting for its derivative financial instruments. It does not own or issue financial instruments for speculative purposes. The Corporation recorded an unrealized net loss on derivative financial instruments due mainly to the decrease in benchmark interest rates for long-term maturities since the end of 2009.

(5) EBITDA is a non-Canadian GAAP financial measure. See "Non-Canadian GAAP Earnings Measure".

## USE OF PROCEEDS

The estimated net proceeds from the Offering, after deducting the Underwriters' Fee and the expenses of the Offering payable by the Corporation, will be approximately $152.8 million, assuming no exercise of the Over-Allotment Option. The Corporation will use such proceeds to finance the Cash Purchase Price to be paid by the Corporation in relation to the Acquisition, to pay related transaction costs and for other general corporate purposes. If the Over-Allotment Option is exercised in full, the total net proceeds to Corporation, after deducting the Underwriters' Fee and the expenses of the Offering payable by the Corporation, will be approximately $157.8 million. In the event that all or part of the Over-Allotment Option is exercised, the additional proceeds received from the exercise of such option will be used for general corporate purposes. See "Acquisition — Share Purchase Agreement

## CONSOLIDATED CAPITALIZATION OF THE CORPORATION

The following table sets out the consolidated capitalization of the Corporation as at the dates indicated before and after the completion of (i) the Offering (assuming no exercise of the Over-Allotment Option) and (ii) the Acquisition. This table should be read in conjunction with the audited and unaudited financial statements of the Corporation incorporated by reference into this short form prospectus and the unaudited pro forma financial statements of the Corporation giving effect to the Acquisition and the Offering included in this short form prospectus.

| | As at September 30, 2010 | As at September 30, 2010 after giving effect to the Offering and the Acquisition(1)(2) |
|---|---|---|
| *($000s)* | | |
| **Indebtedness:** | | |
| Debt | 344,250 | 840,384 |
| Debentures | 79,296 | 79,296 |
| **Total Indebtedness** | **423,546** | **919,680** |
| **Shareholders' equity:** | | |
| Common Shares | 1 | 192,148 |
| Class A Preferred Shares | 82,740 | 82,740 |
| Convertible debentures – Equity component | 1,841 | 1,841 |
| Contributed Surplus | 420,627 | 420,627 |
| Stock-based compensation | 700 | 700 |
| Total deficit and cumulative other comprehensive income | (162,810) | (162,810) |
| **Total Shareholders' Equity:** | **343,099** | **535,246** |
| **Total Capitalization** | **$766,645** | **$1,454,926** |

Notes:

(1) Assuming no exercise of the Over-Allotment Option.

(2) Includes the consolidation of 100% of the Harrison Operating Facilities in which Cloudworks holds a 50.01% indirect interest, including the non-recourse Bond Issue with respect to the Harrison Operating Facilities. Based on its 50.01% indirect interest in the Harrison Operating Facilities, the share of Cloudworks and of the Corporation of such non-recourse debt is approximately $248 million. See "Acquisition — Organizational and Financial Structure".

## DESCRIPTION OF THE SUBSCRIPTION RECEIPTS

### General

The Subscription Receipts will be issued on the Offering Closing Date pursuant to the subscription receipt agreement to be entered into between the Corporation, the Co-Lead Underwriters and the Escrow Agent (the "**Subscription Receipt Agreement**"). The Escrowed Funds will be delivered to and held by the Escrow Agent and invested in short-term obligations of, or guaranteed by, the Government of Canada, a province of Canada, or a Canadian chartered bank, as directed by the Corporation, pending the Acquisition Closing or the occurrence of the Termination Date.

If the Acquisition Closing occurs prior to 5:00 p.m. (Montreal Time) on the Termination Date, the Corporation will forthwith execute and deliver a notice of satisfaction and will issue and deliver to the Escrow Agent one Common Share for each Subscription Receipt then outstanding (subject to any applicable adjustment). The holders of Subscription Receipts will receive as of 5:00 p.m. (Montreal Time) on the Acquisition Closing Date, without payment of additional consideration or further action, one Common Share for each Subscription Receipt held, plus any Dividend Equivalent Payment. If the Acquisition Closing Date occurs on or prior to the Offering Closing Date, the Corporation will deliver Common Shares instead of Subscription Receipts to investors in the Offering and the distribution of such Common Shares will be qualified by this short form prospectus. Forthwith upon the Acquisition Closing and the required notice being delivered to the Escrow Agent, the Escrowed Funds, together with interest earned thereon (subject to the satisfaction of the Dividend Equivalent Payment, if any) less 50% of the Underwriters' Fee, will be released to the Corporation and 50% of the Underwriters' Fee will be remitted to the Co-Lead Underwriters on behalf of the Underwriters.

In the event that a Termination Event occurs, holders of Subscription Receipts shall, commencing on the second business day following the Termination Date, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their pro rata share of the interest earned on the Escrowed Funds. In the event that the gross proceeds of the Offering are required to be remitted to purchasers of the Subscription Receipts, the Corporation has agreed to and undertaken to pay the Escrow Agent an amount equal to 50% of the Underwriters' Fee with respect to the Subscription Receipts such that 100% of the gross proceeds of the Offering would be returned to purchasers of Subscription Receipts, plus interest earned on the Escrowed Funds. To the extent that the Escrowed Funds are not sufficient to remit the required amount to holders of Subscription Receipts, the Corporation will be required to contribute such amounts as are necessary to satisfy any shortfall.

Under the Subscription Receipt Agreement, purchasers of Subscription Receipts will have a contractual right of rescission entitling the purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Subscription

Receipts or the Common Shares, as applicable, if the short form prospectus and any amendment thereto contains a misrepresentation, as such term is defined in the provincial securities laws applicable to such purchaser, provided such remedy for rescission is exercised within 180 days of the Offering Closing Date.

**The holders of Subscription Receipts are not shareholders of the Corporation and will not have any voting or pre-emptive rights or other rights as shareholders including any direct or indirect entitlement whatsoever relating to or arising from any dividends declared or paid on the Common Shares prior to the Acquisition, other than any Dividend Equivalent Payment. From and after the Acquisition Closing Date, the former holders of Subscription Receipts will be entitled as holders of Common Shares to receive dividends from the Corporation, to vote and to all other rights available to holders of Common Shares.**

From time to time while the Subscription Receipts are outstanding, the Corporation, the Co-Lead Underwriters and the Escrow Agent may, without the consent of the holders of the Subscription Receipts, amend or supplement the Subscription Receipt Agreement for certain purposes, including making any change that, in the opinion of the Escrow Agent, does not prejudice the rights of the holders of Subscription Receipts. The Subscription Receipt Agreement provides for other modifications and alterations thereto and to the Subscription Receipts issued thereunder by way of an extraordinary resolution. The term “extraordinary resolution” is defined in the Subscription Receipt Agreement to mean a resolution passed by the affirmative votes of the holders of not less than 66⅔% of the number of outstanding Subscription Receipts represented and voting at a meeting of Subscription Receipt holders or an instrument or instruments in writing signed by the holders of not less than 66⅔% of the number of outstanding Subscription Receipts.

The Dividend Equivalent Payment will be satisfied by the payment by the Escrow Agent to holders of Subscription Receipts of interest earned on the Escrowed Funds. If the former holder of Subscription Receipts’ share of interest earned on the Escrowed Funds is less than the amount to which such holder is entitled in respect of such Dividend Equivalent Payment, the Corporation will pay the amount of any such shortfall to the former holder of Subscription Receipts, provided however that in no event shall the aggregate amount paid to a former holder of Subscription Receipts in respect of a Subscription Receipt exceed the amount of such Dividend Equivalent Payment. The Corporation will treat such shortfall as a partial refund of the subscription price.

**Book-Entry, Delivery and Form**

Subscription Receipts sold outside the United States will be issued in the form of fully-registered global Subscription Receipts (the “**Global Subscription Receipts**”) held by, or on behalf of, CDS Clearing and Depository Services Inc. (“**CDS**”) or its successor (collectively, the “**Depository**”), as custodian for its Participants. Subscription Receipts sold within the United States will be represented by definitive Subscription Receipts in fully-registered form (the “**Definitive Subscription Receipts**”).

All Subscription Receipts sold outside of the United States will be represented in the form of Global Subscription Receipts registered in the name of the Depository or its nominee. Purchasers of Subscription Receipts represented by Global Subscription Receipts will not receive Definitive Subscription Receipts. Rather, the Subscription Receipts will be represented only in “book-entry only” form (unless the Corporation, in its sole discretion, elects to prepare and deliver Definitive Subscription Receipts). Beneficial interests in the Global Subscription Receipts, constituting ownership of the Subscription Receipts, will be represented through book-entry accounts of institutions (including the Underwriters) acting on behalf of beneficial owners, as direct and indirect participants of the Depository (each, a “**Participant**”). Each purchaser of a Subscription Receipt represented by a Global Subscription Receipt will receive a customer confirmation of purchase from the Underwriter or registered dealer from whom the Subscription Receipt is purchased in accordance with the practices and procedures of the selling Underwriter or registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. The Depository will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in Subscription Receipts.

If the Depository notifies the Corporation that it is unwilling or unable to continue as depository in connection with the Global Subscription Receipts, or if at any time the Depository ceases to be a clearing agency or otherwise ceases to be eligible to be a depository and the Corporation is unable to locate a qualified successor, or if the Corporation elects, in its sole discretion, to terminate the book-entry system, beneficial owners of Subscription Receipts represented by Global Subscription Receipts at such time will receive Definitive Subscription Receipts.

Common Shares issued upon exchange of the Subscription Receipts sold outside the United States will be represented by a global certificate issued in registered form to CDS or its nominee under the Book-Entry Only System and will be deposited with CDS. Except in limited circumstances, no holder of a Common Share will be entitled to a certificate evidencing that person’s interest in or ownership of a Common Share, and a holder of Subscription Receipts will receive only a customer confirmation from the registered dealer (a CDS Participant through which the holder’s Subscription Receipts are purchased) that Common Shares have been issued.

### Transfer and Exchange of Subscription Receipts

Transfers of beneficial ownership in Subscription Receipts represented by Global Subscription Receipts will be effected through records maintained by the Depository for such Global Subscription Receipts or its nominees (with respect to interests of Participants) and on the records of Participants (with respect to interests of persons other than Participants). Unless the Corporation elects, in its sole discretion, to prepare and deliver Definitive Subscription Receipts, beneficial owners who are not Participants in the Depository's book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interests in Global Subscription Receipts, may do so only through Participants in the Depository's book-entry system.

The ability of a beneficial owner of an interest in a Subscription Receipt represented by a Global Subscription Receipt to pledge such Subscription Receipt or otherwise take action with respect to such owner's interest in a Subscription Receipt represented by a Global Subscription Receipt (other than through a Participant) may be limited due to the lack of a physical certificate. Subject to applicable laws, registered holders of Definitive Subscription Receipts may transfer such Subscription Receipts upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer to the registrar for the Subscription Receipts at its principal offices of the transfer agent in Montreal, Quebec or such other city or cities as may from time to time be designated by the Corporation, whereupon new Subscription Receipts will be issued in authorized denominations in the same aggregate principal amount as the Subscription Receipts so transferred, registered in the names of the transferees.

## GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. Holders of Common Shares are entitled to receive dividends as and when declared by the Board of Directors and are entitled to one vote per share on all matters to be voted on at all meetings of shareholders. Subject to the prior rights of holders of preferred shares of any series thereof, and other shares of the Corporation ranking in priority to the Common Shares, upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of Common Shares will be entitled to share rateably in the remaining assets available for distribution, after payment of liabilities. The Board of Directors has the right to fix the number and to determine the designations, rights, privileges, restrictions and conditions attaching to the preferred shares of each series. On September 9, 2010, the articles of the Corporation were amended pursuant to the Preferred Share Offering to create the Series A Preferred Shares and the Cumulative Floating Rate Preferred Shares, Series B. Pursuant to the Debenture Offering, the Corporation created the Debentures and issued for $80.5 million of Debentures which have a maturity date of April 30, 2017. The Debentures bear interest at a rate of 5.75% per annum, payable semi-annually, and are convertible at the option of the holder into Common Shares at a conversion price of $10.65 per Common Share.

At the close of business on February 24, 2011 there were 59,532,606 Common Shares outstanding and 3,400,000 Series A Preferred Shares outstanding and $80.5 million principal amount of Debentures.

## PRIOR SALES

Other than in respect of the Offering, the Corporation did not issue Common Shares and securities convertible into Common Shares during the 12-month period prior to the date hereof other than as follows:

- In the context of the Combination, each unitholder of the Fund exchanged its trust units for Common Shares of the Corporation on the basis of an exchange ratio of 1.46 Common Shares for each Fund unit resulting in the issuance of 36,032,606 Common Shares in aggregate.

- On March 8, 2010, the Corporation completed the Debenture Offering for aggregate gross proceeds of $70 million. The Debentures have a maturity date of April 30, 2017. The Debentures bear interest at a rate of 5.75% per annum, payable semi-annually, and are convertible at the option of the holder into Common Shares at a conversion price of $10.65 per Common Share. On March 16, 2010, an over-allotment option was exercised by the underwriters to purchase an additional $10.5 million principal amount, bringing the aggregate gross proceeds of this Debenture Offering to $80.5 million.

- On June 23, 2010, 808,024 options to purchase Common Shares were issued pursuant to the Corporation's stock option plan at an exercise price of $8.75.

## PRICE RANGE AND TRADING VOLUME OF THE SECURITIES

The Common Shares, Debentures and Series A Preferred Shares are traded on the TSX. The trading symbol for the Common Shares is "INE", the trading symbol for the Debentures is "INE.DB" and the trading symbol for the Series A Preferred Shares is "INE.PR.A". The following tables sets forth the trading history of the Common Shares, the Debentures and the Series A

Preferred Shares as reported by the TSX from February 1, 2010 to February 24, 2011 in the case of the Common Shares, from March 8, 2010 to February 24, 2011 for the Debentures and from September 14, 2010 to February 24, 2011 for the Series A Preferred Shares.

*Common Shares*

| Period | High | Low | Volume |
|---|---|---|---|
| February | 8.20 | 6.30 | 2,873,372 |
| March | 8.89 | 7.87 | 623,960 |
| April | 9.50 | 8.10 | 5,122,067 |
| May | 9.62 | 8.00 | 2,424,968 |
| June | 9.00 | 8.10 | 3,582,923 |
| July | 9.00 | 8.12 | 779,725 |
| August | 9.00 | 8.46 | 1,671,703 |
| September | 9.94 | 8.41 | 1,426,758 |
| October | 9.98 | 9.26 | 1,047,373 |
| November | 9.96 | 9.20 | 1,187,094 |
| December | 9.96 | 9.53 | 660,162 |
| January | 10.72 | 9.55 | 956,366 |
| February 1 to 24 | 10.03 | 9.39 | 1,585,689 |

On February 11, 2011, the last trading day before the announcement of the Offering, the closing price of the Common Shares on the TSX was $9.71.

*Debentures*

| Period | High | Low | Volume ($) |
|---|---|---|---|
| March 8 to 31 | 101.00 | 99.65 | 15,354,401 |
| April | 101.50 | 99.25 | 4,682,356 |
| May | 101.00 | 99.00 | 2,645,302 |
| June | 101.00 | 99.00 | 1,785,931 |
| July | 101.00 | 100.00 | 1,430,707 |
| August | 102.00 | 100.55 | 1,619,797 |
| September | 104.50 | 101.00 | 1,583,402 |
| October | 104.68 | 103.00 | 1,629,004 |
| November | 104.68 | 103.00 | 1,624,664 |
| December | 104.00 | 102.50 | 929,368 |
| January | 105.50 | 102.00 | 763,049 |
| February 1 to 24 | 104.25 | 103.00 | 895,000 |

On February 11, 2011, the last trading day before the announcement of the Offering, the closing price of the Debentures on the TSX was $103.00.

*Series A Preferred Shares*

| Period | High | Low | Volume |
|---|---|---|---|
| September 14 to 30 | 25.28 | 24.96 | 1,000,633 |
| October | 25.20 | 24.90 | 134,480 |
| November | 25.70 | 24.80 | 138,669 |
| December | 25.30 | 24.82 | 106,270 |

| Period | High | Low | Volume |
|---|---|---|---|
| January | 25.31 | 24.96 | 77,491 |
| February 1 to 24 | 25.25 | 24.82 | 93.852 |

On February 11, 2011, the last trading day before the announcement of the Offering, the closing price of the Series A Preferred Shares on the TSX was $25.10.

## DIVIDEND POLICY

The declaration and payment of dividends on the Corporation's shares is within the discretion on the Board of Directors. The Board of Directors will determine if and when dividends should be paid in the future based on all relevant circumstances, including the desirability of maintaining capital to finance further growth of the Corporation and the Corporation's financial position at the relevant time. As publicly disclosed, the Corporation intends to pay a dividend of $0.58 per Common Share per annum, payable on a quarterly basis.

## PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated February 17, 2011 between the Corporation and the Underwriters (the "**Underwriting Agreement**"), the Corporation has agreed to issue and sell and the Underwriters have agreed to purchase, as principals, on the Offering Closing Date, subject to the conditions stipulated in the Underwriting Agreement, 17,200,000 Subscription Receipts offered hereby at a price of $9.35 per Subscription Receipt for total gross consideration of $160,820,000, payable in cash to the Escrow Agent (less 50% of the Underwriters' Fee) against delivery by the Corporation of certificates evidencing the Subscription Receipts. The Subscription Receipts are being offered to the public in all of the provinces of Canada. The offering price of the Subscription Receipts was determined by negotiation between the Corporation and the Underwriters. The Underwriting Agreement provides that the Corporation will pay the Underwriters' fee of $0.374 per Subscription Receipt issued and sold by the Corporation (the "**Underwriters' Fee**") in consideration for their services in connection with the Offering. 50% of the Underwriters' Fee is payable upon closing of the Offering (and, as applicable, upon the closing of the exercise of the Over-Allotment Option) and 50% upon the Acquisition Closing. If the Acquisition Closing does not occur prior to 5:00 p.m. (Montreal Time) on the Termination Date, the Underwriters' Fee will be reduced to the amount payable upon closing of the Offering.

The obligations of the Underwriters under the Underwriting Agreement are joint and not solidary (the notion equivalent to several in common law) and may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all Subscription Receipts if any securities are purchased under the Underwriting Agreement. If an Underwriter holding less than a 10.5% position does not complete the purchase and sale of the Subscription Receipts, the remaining Underwriters shall be obligated to take up such Underwriter's position on a pro rata basis. In all other cases, if an Underwriter fails to purchase the Subscription Receipts that it has agreed to purchase, the other Underwriters may, but are not obligated to, purchase such Subscription Receipts. The obligations of the Corporation and the Underwriters under the Underwriting Agreement to complete the purchase and sale of the Subscription Receipts will terminate automatically if the Share Purchase Agreement is terminated or the Corporation has advised the Underwriters or announced to the public that it does not intend to proceed with the Acquisition.

After the Underwriters have made reasonable efforts to sell the Subscription Receipts at the offering price referred to above, the Underwriters may decrease the offering price for the Subscription Receipts and may further change the price from time to time to amounts no greater than the one set forth above. The compensation realized by the Underwriters for Subscription Receipts will be decreased by the amount that the aggregate price paid by the purchasers of such Subscription Receipts is less than the amount paid by the Underwriters to the Corporation for such Subscription Receipts.

The Corporation has granted to the Underwriters the Over-Allotment Option. If the Over-Allotment Option is exercised in whole or in part following the Acquisition, an equal number of Common Shares will be issued in lieu of Subscription Receipts. This short form prospectus qualifies the distribution of the Subscription Receipts issuable on the exercise of the Over-Allotment Option, the Common Shares issuable in exchange for the Subscription Receipts, as well as the Common Shares issuable in lieu of Subscription Receipts if the Over-Allotment option is exercised in whole or in part following the Acquisition.

**There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell the Subscription Receipts purchased under this short form prospectus. This may affect the pricing of the Subscription Receipts in the secondary market, the transparency and availability of trading prices, the liquidity of the Subscription Receipts and the extent of issuer regulation. See "Risk Factors".**

The TSX has conditionally approved the listing of the Subscription Receipts and the Common Shares issuable pursuant to the terms of the Subscription Receipts on the TSX. Listing is subject to the Corporation fulfilling all of the listing requirements of the TSX.

Pursuant to rules and regulations of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Subscription Receipts. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Subscription Receipts. These exceptions include bids or purchases permitted under the Universal Market Integrity Rules for Canadian Marketplace of Market Regulation Services Inc. relating to market stabilization and passive market making activities and bids or purchases made for and on behalf of a customer where the order was not solicited during the period of distribution. Under the first mentioned exception, in connection with this Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Subscription Receipts at levels other than those that might otherwise prevail in the open market. Those transactions, if commenced, may be interrupted or discontinued at any time.

The Corporation has agreed with the Underwriters, subject to certain exceptions (including the issue of Common Shares pursuant to the Share Purchase Agreement), not to issue, offer, sell, contract to sell or otherwise issue any Common Shares or any financial instruments convertible into or exercisable or exchangeable for Common Shares, or announce any intention to effect any of the foregoing, for a period of 90 days from the Offering Closing Date without the prior written consent of the Co-Lead Underwriters, on behalf of the Underwriters, which consent may not be unreasonably withheld.

The Subscription Receipts and the Common Shares issuable in exchange for the Subscription Receipts have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the "**U.S. Securities Act**") or any state securities laws of the United States and, subject to certain exceptions, may not be offered or sold in the United States. The Underwriting Agreement provides that the Subscription Receipts may be offered and sold in the United States pursuant to Rule 144A ("**Rule 144A**") under the U.S. Securities Act only to persons who are "Qualified Institutional Buyers" within the meaning of such Rule. Any Subscription Receipts acquired by a Qualified Institutional Buyer in the United States pursuant to Rule 144A will be considered "restricted securities" within the meaning of Rule 144 under the U.S. Securities Act and may not be resold in the United States except pursuant to a registration statement or an exemption from the registration requirements of the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Subscription Receipts within the United States by a dealer (whether or not Participant in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made other than pursuant to an exemption from the registration requirements to the U.S. Securities Act.

The Subscription Receipts sold outside the United States are issued in "book-entry only" form and must be purchased or transferred through a CDS Participant. The Corporation will cause a global certificate or certificates representing any Subscription Receipts sold outside the United States to be delivered to, and registered in the name of, CDS or its nominee. Other than with respect to Subscription Receipts sold within the United States, all rights of holders of Subscription Receipts or Common Shares must be exercised through, and all payments or other property to which such holder is entitled will be made or delivered by, CDS or the CDS Participant through which the holder holds such Subscription Receipts. Each person who acquires Subscription Receipts represented by a global certificate or certificates will receive only a customer confirmation of purchase from the Underwriter or registered dealer from or through which the Subscription Receipts are acquired in accordance with the practices and procedures of that Underwriter or registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book-entry accounts for its CDS Participants having interests in the Subscription Receipts. See "Description of the Subscription Receipts — Book-Entry, Delivery and Form".

## RELATIONSHIP BETWEEN THE CORPORATION AND CERTAIN PERSONS

BMO Nesbitt Burns Inc., TD Securities Inc. and CIBC World Markets Inc. are wholly-owned indirect subsidiaries of Canadian chartered banks, and Desjardins Securities Inc. is an affiliate of a Canadian financial institution, which are currently lenders to the Corporation under its credit facility for an aggregate amount of $103.6 million. Furthermore, the Canadian chartered banks of which BMO Nesbitt Burns Inc., National Bank Financial Inc., TD Securities Inc., RBC Dominion Securities Inc. and CIBC World Markets Inc. are wholly-owned indirect subsidiaries, and the financial institution of which Desjardins Securities Inc. is an affiliate, are currently lenders under credit facilities of certain subsidiaries of the Corporation for aggregate amounts of $38.3 million, $31.7 million, $13.9 million, $19.8 million, $9.3 million and $9.3 million, respectively. Consequently, the Corporation may be considered a "connected issuer" of the Co-Lead Underwriters, TD Securities Inc., RBC Dominion Securities Inc., CIBC World Markets Inc. and Desjardins Securities Inc. under applicable securities laws in certain Canadian provinces.

The Corporation is in compliance with the terms of these existing credit facilities and the lenders have not waived a breach, on the part of the Corporation, of such credit facilities. Except as otherwise disclosed herein, the financial position of the Corporation has not changed in a material manner since such indebtedness was incurred. The indebtedness under these existing credit facilities is secured by pledges of partnership interests and share capital of, and guarantees provided by, certain subsidiaries of the Corporation.

Certain of the Underwriters and/or their affiliates have performed investment banking and advisory services for the Corporation from time to time for which they have received customary fees and expenses. The Underwriters and/or their affiliates may, from time to time, engage in transactions with, or perform services for, the Corporation in the ordinary course of business and receive fees in connection therewith.

The decision to issue the Common Shares and the determination of the terms of the distribution were made through negotiation among the Corporation and the Underwriters. The Canadian chartered banks which are lenders to the Corporation, including the Canadian chartered banks of which the Co-Lead Underwriters, TD Securities Inc., RBC Dominion Securities Inc. and CIBC World Markets Inc. are the respective subsidiaries, and the financial institution of which Desjardins Securities is an affiliate, did not have any involvement in such decision or determination, but have been advised of the Offering and the terms thereof. As a consequence of the Offering, the Co-Lead Underwriters, TD Securities Inc., RBC Dominion Securities Inc., CIBC World Markets Inc. and Desjardins Securities Inc. will not receive any benefit in connection with the Offering other than their respective share of the Underwriters' fee.

## INTEREST OF EXPERTS

Certain legal matters in connection with the Offering will be passed upon on behalf of the Corporation by McCarthy Tétrault LLP and on behalf of the Underwriters by Borden Ladner Gervais LLP. In connection with the Combination (i) National Bank Financial Inc. was retained by the special committee of Innergex Power Trust (the "IPT Special Committee") to prepare and deliver a formal valuation and fairness opinion (the "Formal Valuation and Fund Fairness Opinion"), a copy of which is attached as Appendix D to the Joint Information Circular incorporated by reference herein, (ii) TD Securities Inc. was retained by the special committee of the Corporation and the Board of Directors to prepare and deliver a fairness opinion (the "Corporation Fairness Opinion"), a copy of which is attached as Appendix E to the Joint Information Circular, and (iii) McCarthy Tétrault LLP and Fasken Martineau DuMoulin LLP passed upon certain legal matters on behalf of the Corporation and the IPT Special Committee respectively. As at the date hereof, to the knowledge of the Corporation (i) the partners and associates of McCarthy Tétrault LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares, (ii) the partners and associates of Borden Ladner Gervais LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares, (iii) the partners and associates of Fasken Martineau DuMoulin LLP, as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares, (iv) the designated professionals of National Bank Financial Inc., who prepared the Formal Valuation and Fund Fairness Opinion, as a group directly or indirectly, hold less than 1% of the outstanding Common Shares, and (v) the designated professionals of TD Securities Inc., who prepared the Corporation Fairness Opinion, as a group directly or indirectly, hold less than 1% of the outstanding Common Shares.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of McCarthy Tétrault LLP and Borden Ladner Gervais LLP the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act generally applicable to a holder (i) who acquires Subscription Receipts pursuant to this Offering, (ii) who, for purposes of the Tax Act and at all relevant times, holds the Offered Securities as capital property, and (iii) deals at arm's length and is not affiliated with the Corporation. Generally, Offered Securities will be considered to be capital property to a holder provided the holder does not hold the Offered Securities in the course of carrying on a business of trading or dealing in Offered Securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain holders who are residents of Canada and who might not otherwise be considered to hold their Common Shares as capital property may, in certain circumstances, be entitled to have the Common Shares, and all other "Canadian securities" (as defined in the Tax Act) owned by such holders, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This election is not available in respect of Subscription Receipts.

This summary is not applicable to (i) a holder that is a "financial institution" (as defined in the Tax Act for the purposes of the mark-to-market rules), (ii) a holder an interest in which would be a "tax shelter investment" (as defined in the Tax Act), (iii) a holder that is a "specified financial institution" (as defined in the Tax Act) or (iv) a holder who makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act. **Any such holder should consult its own tax advisor with respect to an investment in the Subscription Receipts.**

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced prior to the date hereof (the "**Proposed Amendments**") and counsels' understanding of the current published administrative and assessing policies and practices of the Canada Revenue Agency. This summary assumes the Proposed Amendments will be enacted in the form proposed, however, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, if at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder or prospective holder of Subscription Receipts, and no representations with respect to the income tax consequences to any holder or prospective holder are made. Consequently, holders and prospective holders of Subscription Receipts should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring Subscription Receipts pursuant to this Offering, having regard to their particular circumstances.**

**Holders Resident in Canada**

This portion of the summary applies to a holder of Offered Securities who, at all relevant times, for purposes of the Tax Act and any applicable income tax convention, is or is deemed to be resident in Canada (a "**Canadian Holder**").

***Taxation of Holders of Subscription Receipts***

*Acquisition of Common Shares pursuant to terms of Subscription Receipts*

A Canadian Holder of Subscription Receipts will not realize any capital gain or capital loss upon the acquisition of Common Shares pursuant to the terms of the Subscription Receipts.

The cost of a Common Share received pursuant to a Subscription Receipt will be the subscription price thereof. The adjusted cost base to a Canadian Holder of Common Shares at any time will be determined by averaging the cost of such Common Shares with the adjusted cost base of any other Common Shares owned by the Canadian Holder as capital property at such time.

*Other Dispositions of Subscription Receipts*

A disposition or deemed disposition by a Canadian Holder of a Subscription Receipt (other than on the acquisition of a Common Share pursuant to the terms of the Subscription Receipts as discussed above) will generally result in the Canadian Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base to the Canadian Holder thereof and any reasonable costs of disposition. The cost to a Canadian Holder of a Subscription Receipt will generally be the amount paid to acquire the Subscription Receipt. Such capital gain (or capital loss) will be subject to the tax treatment described below under "Holders Resident in Canada — Taxation of Holders of Common Shares — Taxation of Capital Gains and Capital Losses".

*Pro Rata Share of Interest*

As described above under "Description of the Subscription Receipts", in the event that a Termination Event occurs, holders of Subscription Receipts shall, commencing on the second business day following the Termination Date, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned on the Escrowed Funds. A Canadian Holder that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year the amount of any such interest accrued to the Canadian Holder on the Escrowed Funds to the end of the Canadian Holder's taxation year, or that is receivable or received by the Canadian Holder before the end of that taxation year, except to the extent that such interest was included in computing the Canadian Holder's income for a preceding taxation year.

Any other Canadian Holder, including an individual, that is entitled to receive its share of interest earned on the Escrowed Funds will be required to include in computing income for a taxation year such interest that is receivable or received by the Canadian Holder in that taxation year, depending upon the method regularly followed by the Canadian Holder in computing income.

A Canadian Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of $6^{2}/_{3}$% on its "aggregate investment income", which is defined in the Tax Act to include interest income.

*Dividend Equivalent Payment*

As described above under "Description of the Subscription Receipts", if the Acquisition Closing occurs prior to 5:00 p.m. (Montreal Time) on the Termination Date, and if a dividend is declared by the Corporation on the Common Shares to holders of record on a date during the period from the Offering Closing Date to the Acquisition Closing Date, the holders of Subscription Receipts will be entitled to receive an amount equal to the amount of such dividend.

The Dividend Equivalent Payment, if any, will be paid by way of a *pro rata* share of interest earned on the Escrowed Funds. The amount of such interest will generally be included in computing the Canadian Holder's income as described under "Holders Resident in Canada — Taxation of Holders of Subscription Receipts – Pro Rata Share of Interest". If the amount of this interest is less than the Dividend Equivalent Payment, the Corporation will pay to the Canadian Holder the amount of any shortfall as a partial refund of the subscription price. Such shortfall amount generally will reduce the cost to the Canadian Holder of the Common Shares acquired on the exchange of the Subscription Receipts.

***Taxation of Holders of Common Shares***

*Disposition of Common Shares*

A disposition or a deemed disposition of a Common Share by a Canadian Holder (except to the Corporation) will generally result in the Canadian Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Common Share exceed (or are less than) the aggregate of the adjusted cost base to the Canadian Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described under "Holders Resident in Canada — Taxation of Holders of Common Shares — Taxation of Capital Gains and Capital Losses".

*Taxation of Capital Gains and Capital Losses*

Generally, one-half of any capital gain (a "taxable capital gain") realized by a Canadian Holder in a taxation year must be included in the Canadian Holder's income for the year, and one-half of any capital loss (an "allowable capital loss") realized by a Canadian Holder in a taxation year must be deducted from taxable capital gains realized by the Canadian Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Canadian Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly, through a partnership or a trust.

A Canadian Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of $6^{2}/_{3}\%$ on its "aggregate investment income", which is defined in the Tax Act to include taxable capital gains.

Capital gains realized by a Canadian Holder who is an individual (other than certain trusts) may result in such Canadian Holder being liable for alternative minimum tax under the Tax Act. Canadian Holders who are individuals should consult their own tax advisors in this regard.

*Receipt of Dividends on Common Shares*

Dividends received or deemed to be received on Common Shares held by a Canadian Holder will be included in computing the Canadian Holder's income for the purposes of the Tax Act.

Such dividends received by a Canadian Holder who is an individual (other than certain trusts) will be subject to the gross-up and dividend tax credit rules in the Tax Act normally applicable to dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit in respect of dividends designated by the Corporation as "eligible dividends". There may be limitations on the ability of the Corporation to designate dividends as "eligible dividends."

Taxable dividends received by a Canadian Holder who is an individual (other than certain trusts) may result in such Canadian Holder being liable for alternative minimum tax under the Tax Act. Canadian Holders who are individuals should consult their own tax advisors in this regard.

A Canadian Holder that is a corporation will include such dividends in computing its income and generally will be entitled to deduct the amount of such dividends in computing its taxable income. A Canadian Holder that is a "private corporation" or "subject corporation" (as such terms are defined in the Tax Act) may be liable under Part IV of the Tax Act to pay a refundable tax of $33^{1}/_{3}\%$ of dividends received or deemed to be received on the Common Shares to the extent such dividends are deductible in computing the Canadian Holder's taxable income.

### Holders Not Resident in Canada

This portion of the summary applies to a holder of Offered Securities who, at all relevant times, for purposes of the Tax Act and any applicable income tax convention, is neither resident nor deemed to be resident in Canada and does not, and is not deemed to, use or hold Offered Securities in carrying on a business in Canada (a "**Non-Canadian Holder**"). In addition, this portion of the summary does not apply to an insurer who carries on an insurance business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act).

***Taxation of Holders of Subscription Receipts***

*Acquisition of Common Shares pursuant to terms of Subscription Receipts*

A Non-Canadian Holder of Subscription Receipts will not realize any capital gain or capital loss upon the acquisition of Common Shares pursuant to the terms of the Subscription Receipts.

*Other Dispositions of Subscription Receipts*

On a disposition or deemed disposition of a Subscription Receipt (other than on the acquisition of a Common Share pursuant to the terms of the Subscription Receipts as discussed above) a Non-Canadian Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Canadian Holder, unless the Subscription Receipt constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Canadian Holder at the time of disposition and the Non-Canadian Holder is not entitled to relief under an applicable income tax convention between Canada and its country of residence.

As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), Subscription Receipts will generally not constitute taxable Canadian property of a Non-Canadian Holder, unless at any time during the 60-month period immediately preceding the disposition of the Subscription Receipts the following two conditions are met: (i) the Non-Canadian Holder, persons with whom the Non-Canadian Holder did not deal at arm's length, or the Non-Canadian Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of the capital stock of the Corporation, and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: (a) real or immovable property situated in Canada; (b) Canadian resource properties; (c) timber resource properties; and (d) options in respect of, or interests in or rights in property described in (a) to (d). **A Non-Canadian Holder contemplating a disposition of Subscription Receipts should consult a tax advisor prior to such disposition.**

*Pro Rata Share of Interest*

As described above under "Description of the Subscription Receipts", in the event that a Termination Event occurs, holders of Subscription Receipts shall, commencing on the second business day following the Termination Date, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned on the Escrowed Funds. A Non-Canadian Holder will generally not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Corporation as, on account or in lieu of payment of, or in satisfaction of, any such interest.

*Dividend Equivalent Payment*

As described above under "Description of the Subscription Receipts", if the Acquisition Closing occurs prior to 5:00 p.m. (Montreal Time) on the Termination Date, and if a dividend is declared by the Corporation on the Common Shares to holders of record on a date during the period from the Offering Closing Date to the Acquisition Closing Date, the holders of Subscription Receipts will be entitled to receive an amount equal to the amount of such dividend.

The Dividend Equivalent Payment, if any, will be paid by way of a pro rata share of interest earned on the Escrowed Funds. The amount of such interest payable to a Non-Canadian Holder will be subject to the Canadian federal tax considerations described above under "Holders Not Resident in Canada – Taxation of Holders of Subscription Receipts – Pro Rata Share of Interest". If the amount of this interest is less than the Dividend Equivalent Payment, the Corporation will pay to the Non-Canadian Holder the amount of any shortfall as a partial refund of the subscription price. Such shortfall amount generally will reduce the cost to the Non-Canadian Holder of the Common Shares acquired on the exchange of the Subscription Receipts.

***Taxation of Holders of Common Shares***

*Disposition of Common Shares*

A Non-Canadian Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Canadian Holder on a disposition of a Common Share issuable pursuant to the terms of the Subscription Receipts, unless the Common Share constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Canadian Holder at the time of disposition and the Non-Canadian Holder is not entitled to relief under an applicable income tax convention between Canada and its country of residence.

As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), Common Shares generally will not constitute taxable Canadian property of a Non-Canadian Holder, unless at any time during the 60-month period immediately preceding the disposition of the Common Shares the following two conditions are met: (i) the Non-Canadian Holder, persons with whom the Non-Canadian Holder did not deal at arm's length, or the Non-Canadian Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of the capital stock of the Corporation, and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: (a) real or immovable property situated in Canada; (b) Canadian resource properties; (c) timber resource properties; and (d) options in respect of, or interests in or rights in property described in (a) to (d). **A Non-Canadian Holder contemplating a disposition of Common Shares should consult a tax advisor prior to such disposition.**

*Receipt of Dividends on Common Shares*

Any dividends paid or credited, or deemed to be paid or credited, on the Common Shares to a Non-Canadian Holder will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax convention between Canada and the Non-Canadian Holder's country of residence. For instance, where the Non-Canadian Holder is a resident of the United States that is entitled to benefits under the Canada-United States Income Tax Convention (1980) as amended, and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%.

## LEGAL PROCEEDINGS

The Corporation is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against the Corporation, its subsidiaries or Cloudworks which would be material to a purchaser of the Subscription Receipts. See "Acquisition — Legal Proceedings".

## AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation and its subsidiaries are Samson Bélair/Deloitte & Touche s.e.n.c.r.l., Chartered Accountants, Montreal, Quebec. The transfer agent and registrar for the Common Shares is Computershare Investor Services at its principal transfer office in Montreal, Quebec.

## RISK FACTORS

*An investment in Subscription Receipts involves a number of risks. Before investing, prospective purchasers of Subscription Receipts should carefully consider, in light of their own financial circumstances, the factors set out below, as well as other information included or incorporated by reference in this short form prospectus and in particular under the heading "Risk Factors" of the Corporation's Annual Information Form. See "Documents Incorporated by Reference".*

**Risks Related Specifically to the Subscription Receipts**

*Market for Subscription Receipts*

There is currently no market through which the Subscription Receipts may be sold and purchasers may not be able to resell the Subscription Receipts purchased under this short form prospectus. Although the TSX has conditionally approved the listing of the Subscription Receipts and the Common Shares issuable upon the exchange of the Subscription Receipts on the TSX, the listing is subject to the fulfillment of all listing conditions of the TSX on or before May 16, 2011 and there can be no assurance that these conditions will be met. There can be no assurance that an active trading market will develop for the Subscription Receipts after the Offering, or if developed, that such a market will be sustained at the price level of the Offering. To the extent that an active trading market for the Subscription Receipts does not develop, the liquidity and trading prices of the Subscription Receipts may be adversely affected.

*Volatility of Market Price of Common Shares*

The market price of the Common Shares may be volatile. This volatility may affect the ability of holders of Subscription Receipts to sell the Subscription Receipts at an advantageous price. Market price fluctuations in the Common Shares may be due to the Corporation's operating results failing to meet expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market prices of the Subscription Receipts and Common Shares.

*Escrow Release Conditions*

Subscription Receipts will only be exchanged for Common Shares upon the Acquisition Closing. In the event that the Acquisition Closing does not occur prior to 5:00 p.m. (Montreal Time) on the Termination Date, holders of Subscription Receipts shall, commencing on the second business day following the Termination Date, be entitled to receive from the Escrow Agent an amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned on the Escrowed Funds. In the event that the gross proceeds of the Offering are required to be remitted to purchasers of Subscription Receipts, the Corporation has agreed to and undertaken to pay the Escrow Agent an amount equal to 50% of the Underwriters' Fee such that 100% of the gross proceeds of the Offering would be returned to purchasers of Subscription Receipts. Further, to the extent that the Escrowed Funds are not sufficient to remit the gross proceeds of the Offering to holders of Subscription Receipts, the Corporation will be required to contribute such amounts as are necessary to satisfy any shortfall. See "Description of the Subscription Receipts". Although the Corporation believes that if either of these scenarios were to occur, it would have sufficient funds to cover such payments, there is no guarantee that the Corporation would be in a financial position to cover such payments.

*Dilutive Effects on Holders of Common Shares*

The Corporation may issue Common Shares in connection with the Subscription Receipts. Accordingly, holders of Common Shares may suffer dilution.

**Risks Related to the Acquisition and Cloudworks**

*Failure to Close the Acquisition*

The Acquisition Closing is subject to the fulfillment or waiver of certain closing conditions, including third-party consents, required approval under the *Competition Act* and certain other customary closing conditions. The failure to have such closing conditions satisfied or, if applicable, waived, will prevent the Corporation from completing the Acquisition. There is no assurance that such closing conditions will be satisfied or waived. Accordingly, there can be no assurance that the Corporation will complete the Acquisition in the timeframe or on the terms and conditions described herein, if at all. If the Acquisition is not completed prior to 5:00 p.m. (Montreal Time) on the Termination Date, the Subscription Receipts will be cancelled and the holders of Subscription Receipts will be entitled to the amount equal to the full subscription price thereof plus their *pro rata* share of the interest earned on the Escrowed Funds. See "Acquisition" and "Description of the Subscription Receipts".

*Potential Undisclosed Liabilities Associated with the Acquisition*

There may be liabilities and contingencies that management of the Corporation did not discover in its due diligence prior to consummation of the Acquisition and the Corporation may not be indemnified for these liabilities and contingencies. The discovery of any material liabilities or contingencies relating to the business of Cloudworks following the Acquisition could have a material adverse effect on the Corporation's business, financial condition and results of operations.

*Limited Representations and Warranties and Indemnities in the Share Purchase Agreement*

The representations and warranties provided by the Vendors and Cloudworks Principals are customary but limited for a transaction of this nature. It could have an impact of the indemnification that the Corporation could obtain. Furthermore, the Share Purchase Agreement provides that the aggregate liability of the Cloudworks Principals is, subject to certain exceptions, limited to 20% of the Purchase Price, provided that the Cloudworks Principals will not be required to make aggregate cash payments in satisfaction of such liability amounting to more than 15% of the Purchase Price, with any liability above this amount recoverable only through set-off against the deferred payment obligations of the Corporation. See "Acquisition — Share Purchase Agreement".

*Risks Related to Cloudworks*

Risks Similar to the Corporation's Business

The businesses of the Corporation and Cloudworks are very similar as they are both involved in the development of renewable energy assets. Although Cloudworks was focused on the development, ownership and operation or run-of-river hydroelectric facilities, the risk factors applicable to Cloudworks' business are substantially the same as those applicable to the Corporation, which are further described in the information incorporated by reference in this short form prospectus and in particular, under the heading "Risk Factors" of the Corporation's Annual Information Form. See "Documents Incorporated by Reference".

Shared Transmission and Interconnection Infrastructure

The six Harrison Operating Facilities all share joint transmission and interconnection infrastructure to transmit their electrical energy generation to a joint substation, the Kwalsa substation (owned by the general partners of HHLP and the Project LPs), which then interconnects to the common point of interconnection for all six Harrison Operating Facilities at the adjacent BC Hydro Upper Harrison Terminal substation. Therefore damage to or a failure of the shared transmission and interconnection infrastructure may result in all six of the Harrison Operating Facilities being unable to deliver their electrical energy generation to the point of interconnection with BC Hydro's transmission system in accordance with the requirements for sale of energy under the two PPAs with BC Hydro in respect of the six Harrison Operating Facilities. All six Harrison Operating Facilities also share one common interconnection agreement with BC Hydro. Therefore, a default by any one of the six Harrison Operating Facilities of its obligations under the interconnection agreement may result in BC Hydro disconnecting all six of the Harrison Operating Facilities from the BC Hydro transmission system.

Cloudworks has entered into a transmission agreement with HHLP to provide for the shared use of portions of the transmission and interconnection infrastructure used by the Harrison Operating Facilities in order that electrical energy which will be produced by the Cloudworks Development Projects can be transmitted to the point of interconnection of the Cloudworks Development Projects and the BC Hydro transmission system at BC Hydro's Upper Harrison Terminal substation. In accordance with the terms of the transmission agreement, all required consents of CC&L must be obtained in order for such shared use of transmission and interconnection infrastructure to proceed. There is no assurance such consents will be obtained prior to the Offering Closing Date.

*CC&L Right to Dissolve*

Cloudworks, CC&L GP and CHI are parties to a shareholders' agreement which, inter alia, gives CC&L GP the right, in certain circumstances (including upon the Acquisition), to require Cloudworks, CC&L GP and CHI to cause CHLP to be dissolved and to cause the units of HHLP to be distributed to the partners of CHLP pro-rata after the satisfaction of the liabilities of CHLP. The Corporation intends to initiate discussions in order to proceed with the dissolution of CHLP in an orderly tax efficient manner for all partners but only to the extent that no default under the Bond Issue is caused by such dissolution. However, there may be adverse consequences to Cloudworks and to the other partners of CHLP as a result of such dissolution (including a potential default under the Bond Issue requiring repayment of obligations thereunder) if the Corporation is unable to secure the required consent under the Bond Issue and must nonetheless proceed with the dissolution. See "Acquisition — Organizational and Financial Structure".

*Integration of the Cloudworks Business*

The integration of Cloudworks may result in significant challenges, and management of the Corporation may be unable to accomplish the integration successfully or without spending significant amounts of money. There can be no assurance that management will be able to integrate successfully the operations of Cloudworks or fully realize the expected benefits of the Acquisition.

*Failure to Realize Acquisition Benefits*

As described in "Acquisition — Rationale for the Acquisition", the Corporation believes that the Acquisition will provide benefits for the Corporation. However, there is a risk that some or all of the expected benefits will fail to materialize, or may not occur within the time periods anticipated by the management of the Corporation. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Corporation.

*Conditional Deferred Payments*

The Share Purchase Agreement provides for the potential payment of additional amounts to the Vendors from the Acquisition Closing Date to the 40th anniversary of the last Cloudworks Development Project to achieve COD (or the 50th anniversary of the Acquisition Closing Date if such date is earlier). The Conditional Deferred Payments are effectively intended to provide for a potential sharing of the value created if Cloudworks' portfolio of assets performs better than the Corporation's expectations and would result in incremental accretion to the Corporation, net of these payments. Accordingly, the Corporation could be required to pay such Conditional Deferred Payments over an extended period and such Conditional Deferred Payments may result in the payment of material amounts by the Corporation. See "Acquisition — Share Purchase Agreement".

## MATERIAL CONTRACTS

The material contracts and other instruments (the "**Material Contracts**") entered into by, to be entered into by, or to become binding upon, the Corporation or its Subsidiary entities in connection with the Acquisition or in connection with the Offering are as follows:

- the Share Purchase Agreement referred to under "Acquisition — Share Purchase Agreement";
- the Subscription Receipt Agreement referred to under "Description of the Subscription Receipts"; and
- the Underwriting Agreement referred to under "Plan of Distribution".

Copies of the foregoing Material Contracts may be inspected during regular business hours at the offices of the Corporation, at 1111 Saint Charles Street West, East Tower, Suite 1255, Longueuil, Quebec, Canada, J4K 5G4, until the expiry of the 30-day period following the date of the final short form prospectus.

## PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a short form prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission, price revision or, in some jurisdictions, damages if the short form prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, price revision or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

**AUDITORS' CONSENT**

We have read the short form prospectus of Innergex Renewable Energy Inc. (the "**Corporation**") dated February 25, 2011, qualifying the distribution of 17,200,000 Subscription Receipts of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. Our report is dated March 22, 2010.

We also consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, deficit and cash flows for the years then ended. Our report is dated March 24, 2009.

Montreal, Quebec
February 25, 2011

*(Signed)* Samson Bélair / Deloitte & Touche, s.e.n.c.r.l.
Chartered accountant auditor permit No. 15452

**AUDITORS' CONSENT**

We have read the short form prospectus of Innergex Renewable Energy Inc. (the "**Corporation**") dated February 25, 2011, qualifying the distribution of 17,200,000 Subscription Receipts, each representing the right to receive one common share of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the unitholders of Innergex Power Income Fund (the "**Fund**") on the consolidated balance sheets of the Fund as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, changes in unitholders' equity and cash flows for the years then ended. Our report is dated February 25, 2010.

We also consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the unitholders of the Fund on the consolidated balance sheets of the Fund as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income, changes in unitholders' equity and cash flows for the years then ended. Our report is dated February 23, 2009.

Montreal, Quebec
February 25, 2011

*(Signed)* KPMG LLP
Chartered Accountants

**AUDITORS' CONSENT**

We have read the short form prospectus of Innergex Renewable Energy Inc. (the "**Corporation**") dated February 25, 2011 qualifying the distribution of 17,200,000 Subscription Receipts, each representing the right to receive one common share of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of Cloudworks Energy Inc. on the Consolidated balance sheet of the company as at December 31, 2009 and the Consolidated statements of operations and deficit and cash flows for the year then ended. Our report is dated February 17, 2011.

| | |
|---|---|
| Vancouver, British Columbia | *(Signed)* PricewaterhouseCoopers LLP |
| February 25, 2011 | Chartered Accountants |

# FINANCIAL STATEMENTS

Cloudworks Historical Financial Information

Audited Comparative Annual Financial Statements (consolidated audited balance sheet as at December 31, 2009 and unaudited consolidated balance sheet as at December 31, 2008, and consolidated audited statements of operations and deficit and cash flows for the year ended December 31, 2009 and consolidated unaudited statements of operations and deficit and cash flows for the year ended December 31, 2008).

Unaudited Interim Financial Statements (consolidated balance sheet as at September 30, 2010 and consolidated statement of operations and deficit and consolidated statement of cash flow for the nine month periods ended September 30, 2010 and 2009).

Unaudited Pro Forma Consolidated Financial Statements of the Corporation

Unaudited pro forma consolidated balance sheet as at September 30, 2010.

Unaudited pro forma consolidated income statement for the year ended December 31, 2009 and the nine-month period ended September 30, 2010.

# Cloudworks Energy Inc.

Consolidated Financial Statements
**December 31, 2009**

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers LLP**
**Chartered Accountants**
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February 17, 2011

## Auditors' Report

**To the Directors of**
**Cloudworks Energy Inc.**

We have audited the consolidated balance sheet of **Cloudworks Energy Inc.** as at December 31, 2009 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our previous report, dated January 31, 2011, has been withdrawn and the financial statements have been revised. Details of the revisions are described in note 2 to the consolidated financial statements.

PricewaterhouseCoopers LLP

**Chartered Accountants**

# Cloudworks Energy Inc.

Consolidated Balance Sheet

**As at December 31, 2009**

| | 2009<br>$ | 2008<br>$<br>(Unaudited) |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 1,293,584 | 1,374,805 |
| Restricted cash and short-term investments (note 3) | 63,861,294 | 53,852,841 |
| Accounts receivable (note 4) | 3,558,476 | 586,813 |
| Due from related parties (note 15) | 135,056 | 131,601 |
| GST and other receivable | 191,571 | 1,083,670 |
| Prepaid expenses | 434,568 | 592,595 |
| Current portion of structured deposit note receivable (note 5) | 61,337,009 | 97,730,204 |
| | 130,811,558 | 155,352,529 |
| **Structured deposit note receivable** (note 5) | - | 56,250,477 |
| **Long-term restricted cash** (note 6) | 25,018,527 | 41,870,195 |
| **New project development** (note 7) | 5,848,369 | 5,211,034 |
| **Projects under construction** (note 8) | 83,792,258 | 305,364,743 |
| **Capital assets** (note 9) | 352,993,467 | 968,921 |
| | 598,464,179 | 565,017,899 |
| **Liabilities and Shareholders' Equity** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 45,440,342 | 15,009,065 |
| Current portion of holdback payable (note 10) | 34,612,877 | 15,874,613 |
| Current portion of long-term debt (note 11) | 74,764 | 99,109 |
| | 80,127,983 | 30,982,787 |
| **Holdback payable** (note 10) | - | 10,583,076 |
| **Long-term debt** (note 11) | 525,605,405 | 525,539,263 |
| | 605,733,388 | 567,105,126 |
| **Shareholders' Deficiency** | | |
| **Share capital** (note 12) | 4,968,623 | 4,929,298 |
| **Contributed surplus** | 1,158,985 | 757,378 |
| **Deficit** | (13,396,817) | (7,773,903) |
| | (7,269,209) | (2,087,227) |
| | 598,464,179 | 565,017,899 |

**Commitments** (note 14)

**Subsequent events** (note 17)

# Cloudworks Energy Inc.

Consolidated Statement of Operations and Deficit

**For the year ended December 31, 2009**

| | 2009 $ | 2008 $ (Unaudited) |
|---|---|---|
| **Revenue** | | |
| Energy revenue | 8,771,380 | - |
| Interest income | 964,522 | 114,062 |
| Other income | 1,730,335 | 2,376,601 |
| | 11,466,237 | 2,490,663 |
| **Expenses** | | |
| Interest | 5,429,202 | - |
| Development | 4,779,625 | - |
| Depreciation and amortization | 3,944,638 | 270,348 |
| Operating | 1,656,071 | - |
| General and administrative | 771,043 | 466,359 |
| Stock-based compensation | 415,907 | 303,206 |
| Royalties | 92,665 | - |
| Pre-operating costs (note 2) | - | 3,579,174 |
| | 17,089,151 | 4,619,087 |
| **Loss before other items** | (5,622,914) | (2,128,424) |
| **Income taxes** (note 13) | - | 661,026 |
| **Loss before non-controlling interest** | (5,622,914) | (1,467,398) |
| **Non-controlling interest** | - | 180,501 |
| **Loss for the year** | (5,622,914) | (1,286,897) |
| **Deficit - Beginning of year** | (7,773,903) | (6,487,006) |
| **Deficit - End of year** | (13,396,817) | (7,773,903) |

# Cloudworks Energy Inc.

Consolidated Statement of Cash Flows

**For the year ended December 31, 2009**

| | 2009 $ | 2008 $ (Unaudited) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the year | (5,622,914) | (1,286,897) |
| Items not affecting cash | | |
| Future income taxes | - | (1,224,303) |
| Non-controlling interest | - | (180,501) |
| Depreciation and amortization | 3,944,638 | 270,348 |
| Loss on disposal of vehicle | - | 1,962 |
| Stock-based compensation | 415,907 | 303,206 |
| Employee benefit in form of share capital | 25,025 | - |
| | (1,237,344) | (2,116,185) |
| Net changes in non-cash working capital items | | |
| Accounts receivable | (2,971,663) | 4,028,176 |
| Due from related parties | (3,455) | (130,601) |
| GST and other receivable | 892,099 | 1,079,216 |
| Prepaid expenses | 158,027 | 181,478 |
| Accounts payable and accrued liabilities | (69,211) | (1,856,506) |
| | (3,231,547) | 1,185,578 |
| **Cash flows from investing activities** | | |
| Additions to new project development | (637,335) | (2,328,220) |
| Additions to projects under construction | (99,734,735) | (178,638,882) |
| Net drawdown of structured deposit note receivable | 97,730,204 | 177,749,086 |
| Change in restricted cash and short-term investments | 6,843,215 | (1,261,931) |
| Additions to capital assets | (935,398) | (625,529) |
| | 3,265,951 | (5,105,476) |
| **Cash flows from financing activities** | | |
| Loans advanced for vehicle purchase | - | 133,778 |
| Loans repaid | (115,625) | (76,644) |
| | (115,625) | 57,134 |
| **Decrease in cash and cash equivalents** | (81,221) | (3,862,764) |
| **Cash and cash equivalents - Beginning of year** | 1,374,805 | 5,237,569 |
| **Cash and cash equivalents - End of year** | 1,293,584 | 1,374,805 |
| **Supplementary cash flow information** | | |
| Interest received | 5,500,427 | 3,875,509 |
| Interest paid | 22,259,079 | 22,303,990 |
| **Non-cash items** | | |
| Inflation compensation interest (note 11) | 157,422 | 7,144,924 |
| Capital assets and projects under construction costs included in accounts payable and accrued liabilities | 38,292,388 | 1,128,902 |
| Capital assets and projects under construction included in holdback payable | 34,612,877 | 16,981,612 |

## 1 Nature of operations

The principal business operations of Cloudworks Energy Inc. (the "Company") are the construction and operation of six power projects and the development of future hydro power projects. The Company currently has 150 megawatts ("MW") of capacity under two 40-year Electricity Purchase Agreements ("EPA") with BC Hydro. Five of the six projects commenced operations in 2009. The remaining plant will commence operations in 2010.

The Company's revenue is derived from this source, and as a result, the Company is economically dependent on the EPA contracts.

The Company has a 50.007% interest in Cloudworks Holdings Limited Partnership (the "Partnership"). The Partnership has eight wholly owned subsidiaries, six of which operate the individual power projects that comprise the two EPAs with BC Hydro. The six individual subsidiaries are Douglas Creek Project Limited Partnership, Fire Creek Project Limited Partnership, Tipella Creek Project Limited Partnership, Stokke Creek Project Limited Partnership, Lamont Creek Project Limited Partnership, and Upper Stave Project Limited Partnership.

Harrison Hydro Project Inc. ("HHPI"), the seventh wholly owned subsidiary and the General Partner of the six subsidiaries, was incorporated by a Certificate of Incorporation issued pursuant to the provisions of the *British Columbia Corporations Act* in January 2007.

Harrison Hydro Limited Partnership ("HHLP") is the eighth wholly owned subsidiary of the Partnership and is the limited partner of the six operating partnerships as well as the 100% shareholder of HHPI. HHLP acts as the managing company for the entities beneath it.

## 2 Significant accounting policies

### Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars.

### Principles of consolidation

These consolidated financial statements include the accounts of the Company, the Partnership, HHLP, HHPI, and the six wholly owned limited partnerships (note 1). Intercompany transactions and balances are eliminated upon consolidation.

**Revenue recognition**

The Company recognizes revenue when energy from the plants flows to the substation and enters the transmission lines for delivery elsewhere. BC Hydro has installed meters that measure the flow of energy on an hourly basis. Revenue is calculated based on rates set for the amount and the time of day, in accordance with the EPAs with BC Hydro (note 1).

**Financial instruments**

Financial assets held-for-trading, comprising cash and cash equivalents, are measured at fair value with changes in fair value recognized in net earnings.

Financial assets comprising restricted cash and short-term investments, accounts receivable, due from related parties, and GST and other receivable are designated as loans or receivables and measured at amortized cost.

Financial liabilities comprising accounts payable and accrued liabilities, holdback payable, and long-term debt are designated as financial liabilities and measured at amortized cost.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of 90 days or less.

**Power project development costs**

The Company capitalizes direct costs associated with its hydroelectric run-of-river power projects. Costs associated with successful projects are reclassified as capital assets on completion and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the project is abandoned or when recovery of such costs can no longer be reasonably regarded as probable. Direct costs consist of direct labour, material and equipment costs; engineering and project development costs; and administrative costs incurred that are incremental and directly attributable to the construction and development of the projects.

Recovery of power project development costs is dependent upon the successful completion of the projects. The success of the projects is dependent upon the ability to economically generate electrical power and the ability to sell the electricity generated on a profitable basis.

**Capital assets**

The hydro plant infrastructure includes costs related to the intake, penstock, powerhouse, transmission lines and substation for each project. It also includes deferred development costs incurred during the construction phase of the projects. The costs are being depreciated on a straight-line basis over 40 years, commencing in the month following the month the project begins producing energy.

The generator and turbines for each project are being depreciated on a straight-line basis over 20 years, commencing on the month following the month the project begins producing energy.

The communication systems for each project are being depreciated on a straight-line basis over 20 years, commencing on the month following the month the project begins producing energy.

The camp buildings and storage containers for each project are being depreciated on a straight-line basis over 20 years, commencing on the month following the month the project begins producing energy.

Spare parts inventory is being amortized over five years on a straight-line basis, commencing on the month following the month the project begins producing energy.

Heavy equipment and vehicles are being depreciated at 30% declining balance, with one-half provision recognized in year of acquisition.

Boats are being depreciated at 15% declining balance, with one-half provision recognized in year of acquisition.

Computer equipment is being depreciated on a straight-line basis over three years.

Equipment, leasehold improvements, office equipment and furniture and operator residence furniture are all being depreciated on a straight-line basis over five years.

Radio and communication equipment is being depreciated at 20% declining balance, with one-half provision recognized in year of acquisition.

Software is being depreciated on a straight-line basis over two years.

Storage sheds are being depreciated at 10% declining balance, with one-half provision recognized in year of acquisition.

**Asset retirement obligations**

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation.

The fair value of the asset retirement obligations cannot be reasonably estimated at this time due to the long service life of these assets and the low probability that these sites will ever be abandoned given the renewable nature of the electrical energy being generated. Accordingly, no provision has been made for an asset retirement obligation as at December 31, 2009 and 2008.

### Impairment of long-lived assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized.

### Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. While management believes that these estimates and assumptions are reasonable, actual results could differ.

### Accounting changes

*Adoption of new accounting standards*

On January 1, 2009, the Company adopted the CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces Handbook Section 3450, *Research and Development Costs*, and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company has adopted this new standard retrospectively. As a result of the adoption of the new standard, the Company could no longer defer $6,836,091 of pre-operating costs that had been previously capitalized and consequently the consolidated loss for 2008 increased by $3,667,859.

*Other changes*

After the financial statements were initially released on January 31, 2011, two changes were made which had a material impact on the financial statements.

- Amounts of interest earned on the structured deposit note for the years ended December 31, 2009, 2008 and 2007 had originally been recorded in the statement of operations. Adjustments were made to record these amounts as reductions of projects under construction since they represented interest on surplus cash generated at the inception of the construction period when the proceeds of the issuance of the Company's long-term debt were received. In effect the amounts of interest earned offset amounts of interest paid which were capitalized to the projects under construction. As a result of these adjustments the following financial statement line items were affected for the year ended December 31, 2009.

| | 2009<br>$ | 2008<br>$<br>(Unaudited) |
|---|---|---|
| **Consolidated Balance Sheet** | | |
| Projects under construction | (6,581,731) | (24,663,324) |
| Capital assets | (22,445,093) | - |
| Future income taxes | (2,410,717) | (2,205,866) |
| Non-controlling interest | (9,244,946) | (10,448,462) |
| Deficit | (17,371,161) | (12,008,996) |
| **Consolidated Statement of Operations and Deficit** | | |
| Interest income | (4,540,036) | (14,302,756) |
| Depreciation and amortization | 176,536 | - |
| Income taxes | 204,851 | 832,541 |
| Non-controlling interest | (1,203,516) | 5,268,178 |

- Certain Reserve Accounts of restricted cash maintained under the Company's Trust Indenture were reclassified from current to long-term amounting to $22,269,075 in 2009 (2008 - $22,176,444 (unaudited)).

- One amount of restricted cash supporting a letter of credit granted to BC Hydro was reclassified from long-term to current amounting to $6,640,548 in 2009.

## 3 Restricted cash and short-term investments

| | 2009<br>$ | 2008<br>$<br>(Unaudited) |
|---|---|---|
| Restricted chequing accounts | 5,484,152 | 1,144,408 |
| Bond Proceeds Escrow Account | 11,861,397 | 31,743,518 |
| Senior Debt Service Payment Account | 5,423,432 | 5,404,301 |
| Junior Debt Service Payment Account | 105,345 | 104,962 |
| Lien holdback | 34,346,395 | 15,455,627 |
| Distribution | 25 | 25 |
| Letter of credit in favour of BC Hydro to secure delivery of energy under the two BC Hydro EPA's | 6,640,548 | - |
| | 63,861,294 | 53,852,841 |

In accordance with the terms of the Trust Indenture, the unexpended balance of the loan proceeds is held in restricted trust accounts managed by the Bank of New York as trustee.

Bond Proceeds Escrow Account ("BPEA") - Funding into this account is from the structured deposit note. Monthly draws for the ongoing financing of the HHLP projects (note 8) are allowed under certain conditions and after approval by an independent engineer and the trustee.

Lien holdback - The Company holds $34,346,395 in builder's lien holdback as short-term restricted cash. The balance is payable to the builder upon the completion of the HHLP projects (note 8).

Other restricted accounts required under the terms of the Trust Indenture are as follows:

- Senior Debt Service Payment Account ("SDSPA") - requires a monthly transfer from the BPEA equal to one-sixth of the next semi-annual bond payments required on the outstanding senior bonds issued by Harrison Hydro Finance Inc. ("HHFI"). These amounts mirror the loan payments required by the Senior LP Credit Agreement to HHFI with the addition of an interest spread charged by HHFI (note 11). Senior loan payments are taken from this account on their due dates.

- Junior Debt Service Payment Account ("JDSPA") - requires a monthly transfer from the BPEA equal to one-third of the next quarterly bond payment required on the outstanding junior bond issued by HHFI. These amounts mirror the loan payments required by the Junior LP Credit Agreement to HHFI with the addition of an interest spread charged by HHFI (note 11). The junior loan payments are taken from this account on their due dates.

## 4 Accounts receivable

Accounts receivable as at December 31, 2009 consist primarily of billings for energy, test energy and green energy as provided by contracts in place with BC Hydro and the federal government. The balance at December 31, 2008 consisted of an amount due from the engineering, procurement and construction ("EPC") contractor for reimbursement of certain costs.

## 5 Structured deposit note receivable

The Company has invested the unused proceeds from long-term debt in a structured deposit note held with a major Canadian financial institution. This note bears interest at 4.75% with varying monthly repayment amounts of principal only based on anticipated cash requirements for the construction of the HHLP projects. The original amount invested was $400,221,201. The final payment on the note is due on December 1, 2010.

| | 2009<br>$ | 2008<br>$<br>(Unaudited) |
|---|---|---|
| Principal balance outstanding | 37,180,582 | 134,910,786 |
| Accrued interest to December 31 | 24,156,427 | 19,069,895 |
| | 61,337,009 | 153,980,681 |
| Less: Current portion | 61,337,009 | 97,730,204 |
| Long-term portion | - | 56,250,477 |

## 6 Long-term restricted cash

| | 2009<br>$ | 2008<br>$<br>(Unaudited) |
|---|---|---|
| Debt Service Reserve Account | 11,133,770 | 11,088,222 |
| Hydrology Reserve Account | 11,135,305 | 11,088,222 |
| Letter of credit for service delivery | 2,359,452 | 9,000,000 |
| Letter of credit for construction | 335,000 | 335,000 |
| Cash security | 55,000 | 55,000 |
| Lien Holdback | - | 10,303,751 |
| | 25,018,527 | 41,870,195 |

The Company is required to maintain cash restricted for the following:

- $9,000,000 letter of credit in favour of BC Hydro to secure delivery of energy under the two BC Hydro EPAs (note 1). At December 31, 2009, $6,640,548 has been classified as current

- $335,000 letter of credit in favour of Department of Fisheries and Oceans for the construction of fisheries habitat near the Douglas Creek, Stokke Creek and Upper Stave projects

- $55,000 cash security held on behalf of the Province of British Columbia in respect of obligations under agreements.

Debt Service Reserve Account ("DSRA") - An amount must be held in reserve sufficient to cover the next payment due on the Senior LP Credit Agreement adjusted by the inflation factor where required. These funds are to provide security should there be insufficient funds in the Senior Debt Service Payment Account to make a required bond payment (2009 - $11,133,770; 2008 - $11,088,222).

Hydrology Reserve Account ("HRA") - An amount must be held that is equal to the amount required in the DSRA. These funds can only be accessed to cover a shortfall for a required payment for principal and interest of the Senior LP Credit Agreement or for EPA liquidated damages that are due and payable (2009 - $11,135,305; 2008 - $11,088,222).

Included in the 2008 comparative balance is the long-term portion of the lien holdback balance of $10,303,751 (unaudited). The lien holdback balance is included in short-term restricted cash (note 3) as at December 31, 2009 as the amount becomes payable to the builder on the date of substantial completion of the projects in 2010.

## 7 New project development

| | 2009<br>$ | 2008<br>$<br>(Unaudited) |
|---|---|---|
| Big Silver Creek | 1,051,830 | 919,953 |
| Tretheway Creek | 731,011 | 566,295 |
| Statlu Creek | 730,639 | 630,539 |
| Shovel Creek | 435,981 | 344,328 |
| Northwest Stave | 475,632 | 432,679 |
| Other projects (33) | 2,423,276 | 2,317,240 |
| | 5,848,369 | 5,211,034 |

### Big Silver Creek

Big Silver Creek is located approximately 46 km north of the community of Harrison Hot Springs. The project is expected to produce 25 MW of electricity and will power approximately 10,000 homes per year. It received an EPA from BC Hydro in March 2010, entered the Environmental Assessment process in October 2010, and is scheduled to come online in 2016.

### Tretheway Creek

Tretheway Creek is located approximately 65 km north-northeast of the community of Mission. The project is expected to produce 22 MW of electricity and will power approximately 8,700 homes per year. It received an EPA from BC Hydro in March 2010, entered the Environmental Assessment process in October 2010, and is scheduled to come online in 2015.

### Statlu Creek

Statlu Creek is located approximately 30 km northeast of the community of Mission. The project is expected to produce just over 10 MW of electricity and will power approximately 3,300 homes per year. It does not yet have an EPA with BC Hydro but may seek one under the Standing Offer Program. It entered the Environmental Assessment process in October 2010, but has no scheduled completion date.

### Shovel Creek

Shovel Creek is located approximately 8 km upstream (north) of the Big Silver Creek Waterpower Project intake site. The project will produce just over 12 MW of electricity and will power approximately 4,800 homes per year. It received an EPA from BC Hydro in March 2010, entered the Environmental Assessment process in October 2010, and is scheduled to come online in 2016.

### Northwest Stave

Northwest Stave is located approximately 14 km upstream (north) of the Upper Stave Hydro Projects intake site. The project is expected to produce just over 18 MW of electricity and will power approximately 6,200 homes per year. It received an EPA from BC Hydro in March 2010, has already received its Environmental Assessment Certificate and Water License, and is scheduled to come online in 2013.

### Other projects

The Company has approximately 30 other water license applications that it is monitoring. These are located on Vancouver Island, in the immediate area of its current projects, and on the central coast. The rough timeline for development of these assets is 2020. None of these projects have EPAs or Environmental Assessment Certificates.

## 8 Projects under construction

| | 2008 (Unaudited) | 2009 | | |
|---|---|---|---|---|
| | **Net book value** $ | **Net expenditures** $ | **Transfer to capital assets** $ | **Net book value** $ |
| Douglas Creek | 60,311,666 | 11,995,887 | 72,307,553 | - |
| Fire Creek | 63,583,155 | 10,478,649 | 74,061,804 | - |
| Tipella Creek | 53,970,159 | 11,429,104 | 65,399,263 | - |
| Stokke Creek | 45,513,520 | 24,047,974 | 69,561,494 | - |
| Lamont Creek | 37,610,306 | 36,093,366 | 73,703,672 | - |
| Upper Stave | 44,375,937 | 39,416,321 | - | 83,792,258 |
| | 305,364,743 | 133,461,301 | 355,033,786 | 83,792,258 |

Completed projects and the projects under construction include $17,032,932 (2008 - $36,595,161 (unaudited)) of long-term debt interest and $4,540,036 (2008 - $14,302,756 (unaudited)) of interest earned that was capitalized during the year.

The projects under construction are as follows:

**Douglas Creek**

The Douglas Creek Project is a run-of-river project in the Douglas Creek drainage basin, a tributary to Little Harrison Lake, which in turn feeds to Harrison Lake. It is located approximately 90 km northeast of Vancouver, British Columbia. The project is designed to divert up to 11.1 cubic metres per second of flow from a diversion weir approximately 4.1 km up Douglas Creek. The water travels into an intake structure, connecting to a penstock and surface powerhouse in the lower reach of the creek, all along the western slope of the Douglas Creek Valley. The name-plate capacity of the project is designed to be 27 MW, and the project connects to a common 360 kV substation for all six plants located near Tipella, connecting into BC Hydro's 3L2 transmission line. The project commenced operations in 2009.

**Fire Creek**

The Fire Creek Project is a run-of-river project in the Fire Creek drainage basin, a tributary to the Lillooet River, which in turn feeds to Harrison Lake. It is located approximately 85 km northeast of Vancouver, British Columbia. The project is designed to divert up to 9.5 cubic metres per second of flow from a diversion weir approximately 5.3 km up Fire Creek. The water travels into an intake structure, connecting to a penstock and surface powerhouse in the lower reach of the creek, all along the northwestern slope of the Fire Creek Valley. The name-plate capacity of the project is designed to be 23 MW, and the project connects to a common 360 kV substation for all six plants located near Tipella, connecting into BC Hydro's 3L2 transmission line. The project commenced operations in 2009.

**Tipella Creek**

The Tipella Creek Project is a run-of-river project in the Tipella Creek drainage basin, a tributary to Harrison Lake. It is located approximately 80 km northeast of Vancouver, British Columbia. The project is designed to divert up to 7.2 cubic metres per second of flow from a diversion weir approximately 3.0 km up Tipella Creek. The water travels into an intake structure, connecting to a penstock and surface powerhouse in the lower reach of the creek, all along the northern slope of the Tipella Creek Valley. The name-plate capacity of the project is designed to be 18 MW, and the project connects to a common 360 kV substation for all six plants located near Tipella, connecting into BC Hydro's 3L2 transmission line. The project commenced operations in 2009.

**Stokke Creek**

The Stokke Creek Project is a run-of-river project in the Stokke Creek drainage basin, a tributary to Harrison Lake. It is located approximately 75 km northeast of Vancouver, British Columbia. The project is designed to divert up to 8.4 cubic metres per second of flow from a diversion weir approximately 2.5 km up Stokke Creek. The water travels into an intake structure, connecting to a penstock and surface powerhouse in the lower reach of the creek, all along the southern slope of the Stokke Creek Valley. The name-plate capacity of the project is designed to be 22 MW, and the project will connect to a common 360 kV substation for all six plants located near Tipella, connecting into BC Hydro's 3L2 transmission line. The project commenced operations in 2009.

**Lamont Creek**

The Lamont Creek Project is a run-of-river project in the previously un-named Lamont Creek drainage basin, a tributary to the Stave River, which in turn feeds to Stave Lake. It is located approximately 60 km northeast of Vancouver, British Columbia. The project is designed to divert up to 8.7 cubic metres per second of flow from a diversion weir approximately 3.5 km up Lamont Creek. The water travels into an intake structure, connecting to a penstock and surface powerhouse in the lower reach of the creek, all along the northern slope of the Lamont Creek Valley. The name-plate capacity of the project is designed to be 27 MW, and the project connects via a 35 km powerline to a common 360 kV substation for all six plants located near Tipella, which connects into BC Hydro's 3L2 transmission line. The project commenced operations in 2009.

**Upper Stave**

The Upper Stave Project will be a run-of-river project in the Upper Stave River, which flows into Stave Lake. It is located approximately 55 km northeast of Vancouver, British Columbia. The project is designed to divert up to 43.8 cubic metres per second of flow from a diversion weir approximately 18 km upstream from Stave Lake. The water will travel into an intake structure, connecting to a penstock and surface powerhouse, all along the western side of the Upper Stave River Valley. The name-plate capacity of the project is designed to be 33 MW, and the project will connect via a 35 km powerline to a common 360 kV substation for all six plants located near Tipella, which connects into BC Hydro's 3L2 transmission line. The project is approximately 92% complete.

## 9 Capital assets

| | 2008 (Unaudited) | | | 2009 |
|---|---|---|---|---|
| | Net book value $ | Additions $ | Depreciation/ amortization $ | Net book value $ |
| Hydro plant infrastructure | - | 268,402,637 | 2,117,139 | 266,285,498 |
| Generator and turbines | - | 81,551,482 | 1,278,726 | 80,272,756 |
| Communication systems | - | 2,852,046 | 45,302 | 2,806,744 |
| Camp buildings and containers | - | 458,054 | 9,543 | 448,511 |
| Spare parts inventory | - | 1,769,567 | 112,073 | 1,657,494 |
| Heavy equipment and vehicles | 423,220 | 303,488 | 167,279 | 559,429 |
| Boats | 239,174 | 3,429 | 35,876 | 206,727 |
| Computer equipment | 42,116 | 56,366 | 39,847 | 58,635 |
| Equipment, furniture and fixtures | 163,681 | 64,264 | 58,537 | 169,408 |
| Leasehold improvements | 47,016 | 114,517 | 38,298 | 123,235 |
| Radio and communication equipment | 36,091 | 2,908 | 7,800 | 31,199 |
| Software | 17,623 | 32,102 | 33,674 | 16,051 |
| Storage sheds | - | 10,891 | 544 | 10,347 |
| Land | - | 347,433 | - | 347,433 |
| | 968,921 | 355,969,184 | 3,944,638 | 352,993,467 |

### Capital assets by project

| | 2009 net book value | | | | | | |
|---|---|---|---|---|---|---|---|
| | Douglas Creek $ | Fire Creek $ | Tipella Creek $ | Stokke Creek $ | Lamont Creek $ | Corporate $ | Total $ |
| Hydro plant infrastructure | 54,510,982 | 57,081,323 | 47,424,704 | 52,362,322 | 54,906,167 | - | 266,285,498 |
| Generator and turbines | 15,955,068 | 14,774,430 | 16,202,386 | 15,834,303 | 17,506,569 | - | 80,272,756 |
| Communication systems | 552,864 | 581,173 | 552,864 | 559,922 | 559,921 | - | 2,806,744 |
| Camp buildings and containers | 8,394 | 335,147 | 8,394 | 96,576 | - | - | 448,511 |
| Spare parts inventory | 324,421 | 324,421 | 324,421 | 342,116 | 342,115 | - | 1,657,494 |
| Heavy equipment and vehicles | - | - | - | - | - | 559,429 | 559,429 |
| Boats | - | - | - | - | - | 206,727 | 206,727 |
| Computer equipment | - | - | - | - | - | 58,635 | 58,635 |
| Equipment, furniture and fixtures | - | - | - | - | - | 169,408 | 169,408 |
| Leasehold improvements | - | - | - | - | - | 123,235 | 123,235 |
| Radio and communication equipment | - | - | - | - | - | 31,199 | 31,199 |
| Software | - | - | - | - | - | 16,051 | 16,051 |
| Storage sheds | - | - | - | - | - | 10,347 | 10,347 |
| Land | - | - | - | - | - | 347,433 | 347,433 |
| | 71,351,729 | 73,096,494 | 64,512,769 | 69,195,239 | 73,314,772 | 1,522,464 | 352,993,467 |

## 10 Holdback payable

In accordance with the terms of the EPC contract, payment of 10% of the invoiced amounts is withheld in a builder's lien holdback bank account. Funds in the lien holdback account (other than interest earned) can only be disbursed following the issuance of a "certificate of completion" (as defined in the *Builders Lien Act*).

## 11 Long-term debt

On July 6, 2007, the Company entered into two credit agreements with HHFI, a company with a common director to the Company, as follows:

The Senior LP Credit Agreement provides:

- $245,185,000 Real Return Rate Loan with interest accruing at 2.958% adjusted by an inflation ratio as well as an inflation compensation interest factor. Both inflation adjustments are based on the All-items Consumer Price Index for Canada ("CPI"), not seasonally adjusted. Payments on this loan are due June 1 and December 1 each year and the loan matures on June 1, 2049. Semi-annual payments are $3,626,286 before CPI adjustment until June 1, 2011 when the amount increases to $5,790,154 before CPI adjustment. On December 1, 2031, the payment amount decreases to $4,481,062 before CPI adjustment where it remains until maturity. No principal repayment is due until June 1, 2011.

- $246,000,000 Fixed Rate Loan with interest accruing at 5.564%. Payments on this loan are due March 1 and September 1 each year with the loan maturing on September 1, 2049. Semi-annual payments are $6,843,720 until March 1, 2011 when they increase to $8,072,299 and remain there until September 1, 2030 when they decrease to $6,723,932 for the remainder of the loan. Principal repayment commences on March 1, 2011.

The Junior LP Credit Agreement provides:

- $27,243,000 Real Return Rate Loan with interest accruing at 4.273% adjusted by an inflation ratio as well as an inflation compensation interest factor. Both inflation adjustments are based on the CPI, not seasonally adjusted. Payments on this loan are due quarterly on March 1, June 1, September 1 and December 1 each year and the loan matures on September 1, 2049. Quarterly payments are $291,023 before CPI adjustment until June 1, 2017 when the amount increases to $388,672 before CPI adjustment until maturity. Principal repayment does not commence until June 1, 2017.

In addition, both credit agreements require the payment of special interest on each loan repayment date. The amount is calculated at 0.00311% per annum on the outstanding principal until the fifth anniversary of the agreement when it changes to 0.000311% per annum until maturity.

**Security pledged**

HHLP and the entities beneath it ("HHLP Group") act as guarantor for the bond series issued by HHFI. The assets of the HHLP Group, with the exception of the builder's lien holdback account, the distribution account and the letters of credit (note 6), are held as collateral by the Bank of New York Canada as security agent for the Bank of New York as trustee under the Trust Indenture. In addition, the HHLP Group is restricted in access and use of all monetary assets. Details of the bond series are as follows:

| | Senior Real Return Rate Loan $ | Senior Fixed Rate Loan $ | Junior Real Return Rate Loan $ | Total $ |
|---|---|---|---|---|
| Balance - December 31, 2007 (unaudited) | 245,029,192 | 246,000,000 | 27,225,634 | 518,254,826 |
| Inflation compensation interest | 6,430,426 | - | 714,498 | 7,144,924 |
| Balance - December 31, 2008 (unaudited) | 251,459,618 | 246,000,000 | 27,940,132 | 525,399,750 |
| Inflation compensation interest | 141,683 | - | 15,739 | 157,422 |
| Balance - December 31, 2009 | 251,601,301 | 246,000,000 | 27,955,871 | 525,557,172 |

The decrease in compensation interest is a result of the CPI rate change from 114.53871 at December 31, 2008 (which was lower than the rate on the date the bonds were issued) to 114.60323 on December 31, 2009.

Long-term debt principal repayments over the next five years and thereafter are as follows:

| | $ |
|---|---|
| 2010 | - |
| 2011 | 6,851,076 |
| 2012 | 7,121,537 |
| 2013 | 7,403,798 |
| 2014 | 7,698,421 |
| Thereafter | 496,482,340 |
| | 525,557,172 |

The Company has the following truck loans secured by the trucks:

| | 2009<br>$ | 2008<br>$<br>(Unaudited) |
|---|---|---|
| Interest-free loans repayable with monthly instalments of $747 to $1,212, principal only | 73,134 | 127,310 |
| Loans with interest of 0.9% repayable in monthly instalments of $918 to $942, principal and interest | 49,863 | 111,312 |
| | 122,997 | 238,622 |
| Less: Current portion | 74,764 | 99,109 |
| | 48,233 | 139,513 |

## 12 Share capital

Authorized
10,000,000 common shares without par value
1,000,000 Class A common shares without par value
1,000,000 Class B preferred shares with a par value of $0.288 per share

Issued and outstanding

| | 2009 | | 2008 (Unaudited) | |
|---|---|---|---|---|
| | **Number of shares** | **Amount $** | **Number of shares** | **Amount $** |
| **Common shares** | | | | |
| Beginning of year | 545,591 | 4,853,952 | 545,591 | 4,853,952 |
| Options exercised | 715 | 39,325 | - | - |
| End of year | 546,306 | 4,893,277 | 545,591 | 4,853,952 |
| **Class A common shares** | | | | |
| End of year | 991,954 | 51,998 | 991,954 | 51,998 |
| **Class B preferred shares** | | | | |
| End of year | 81,069 | 23,348 | 81,069 | 23,348 |
| **Total** | 1,619,329 | 4,968,623 | 1,618,614 | 4,929,298 |

**Stock options**

A summary of the status of the Company's stock options as at December 31, 2009 and 2008, and changes during the years then ended is as follows:

| | 2009 | | 2008 (Unaudited) | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price $ | Number of options | Weighted average exercise price $ |
| Outstanding - Beginning of year | 241,460 | 43.98 | 220,718 | 25.33 |
| Granted | 56,000 | 57.50 | 23,600 | 50.00 |
| Exercised | (715) | 35.00 | - | - |
| Forfeited | (14,915) | 44.55 | (2,858) | 35.00 |
| Outstanding - End of year | 281,830 | 52.68 | 241,460 | 43.98 |

The Company has the following stock options outstanding at December 31, 2009:

| Number of options | Exercise price $ | Expiry date |
|---|---|---|
| 20,000 | 8.00 | January 15, 2010 |
| 190,430 | 35.00 | August 14, 2011 |
| 8,000 | 50.00 | August 14, 2011 |
| 2,400 | 50.00 | June 9, 2012 |
| 5,000 | 50.00 | September 22, 2012 |
| 36,000 | 55.00 | November 30, 2014 |
| 15,000 | 60.00 | November 1, 2014 |
| 5,000 | 60.00 | November 30, 2014 |
| 281,830 | | |

The fair values of options granted during the years ended December 31, 2009 and 2008 were estimated using the Black-Scholes option pricing model with the following assumptions:

| | | | | **2009** |
|---|---|---|---|---|
| Options granted | 1,000 | 35,000 | 15,000 | 5,000 |
| Estimated annual volatility | - | - | - | - |
| Risk-free interest rate | 2.54% | 2.56% | 1.35% | 2.83% |
| Expected life | 5 years | 5 years | 5 years | 5 years |
| Expected dividend yield | - | - | - | - |

| | | | | **2008** (Unaudited) |
|---|---|---|---|---|
| Options granted | 4,000 | 4,000 | 2,400 | 5,000 |
| Estimated annual volatility | - | - | - | - |
| Risk-free interest rate | 1.69% | 1.89% | 2.60% | 2.38% |
| Expected life | 39 months | 39 months | 4 years | 4 years |
| Expected dividend yield | - | - | - | - |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

## 13 Income taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to (loss) earnings before taxes. These differences result from the following items:

| | **2009** **$** | **2008** **$** (Unaudited) |
|---|---|---|
| Loss before income taxes | (5,622,914) | (2,128,424) |
| Canadian federal and provincial income tax rates | 30% | 31% |
| Income tax expense based on above rates | (1,686,874) | (659,811) |
| Increase (decrease) due to | | |
| Non-deductible expenditures | 661,898 | 8,874 |
| Tax rate differences | 281,146 | 138,348 |
| Non-taxable portion of capital gains | (261,014) | (368,069) |
| Change in valuation allowance | 177,831 | 1,063,332 |
| Other | 827,013 | (843,700) |
| | - | (661,026) |

The components of the company's future income taxes are as follows:

| | 2009<br>$ | 2008<br>$<br>(Unaudited) |
|---|---|---|
| Future income tax assets | | |
| Tax loss carryforwards | 2,674,514 | 1,919,629 |
| Deferred financing costs and other | 2,539,709 | 4,085,165 |
| Valuation allowance | (1,241,163) | (1,063,332) |
| | 3,973,060 | 4,941,462 |
| Future income tax liabilities | | |
| Capital assets, projects under construction and new project development | (3,973,060) | (4,941,462) |
| Future income taxes - net | - | - |

**Non-capital losses**

The Partnership's subsidiary, HHPI, has total non-capital losses of $18,755,326, which can be used to offset future taxable income. The amounts and expiry date of these losses are as follows:

| | $ |
|---|---|
| 2027 | 3,868,020 |
| 2028 | 9,777,110 |
| 2029 | 5,110,196 |
| | 18,755,326 |

## 14 Commitments

a) On May 28, 2007, HHLP and the six power project subsidiaries entered into a $391 million engineering, procurement and construction contract ("EPC contract") with Peter Kiewit Sons Co. Ltd. ("Kiewit") for the construction of the Douglas Creek, Fire Creek, Stokke Creek, Tipella Creek, Lamont Creek and Upper Stave hydroelectric projects. The agreement binds Kiewit to provide facilities and associated works that meet guaranteed performance targets, by dates that allow HHLP and the six power project subsidiaries to meet their commitments under the EPAs with BC Hydro.

b) On May 25, 2007, HHLP entered into an agreement that provides for a royalty payment based on energy production as follows:

| | |
|---|---|
| 2009 - 2028 | 1% of gross revenue from sale of electricity |
| 2029 - 2048 | 2% of gross revenue from sale of electricity |
| 2049 - 2068 | 3% of gross revenue from sale of electricity |

In any year where the average power purchase price is greater than $139.60 per MW hour, an additional payment of 5% of gross revenue from sale of electricity will be payable.

c) HHLP holds a deposit of $9,000,000 for a letter of credit in favour of BC Hydro as required under the two BC Hydro EPAs (note 6).

d) HHLP holds a deposit of $335,000 for a letter of credit in favour of Department of Fisheries and Oceans for the construction of fisheries habitat near the Douglas Creek, Stokke Creek and Upper Stave projects (note 6).

e) The EPC contract (see (a) above) provides for bonus payments to the contractor for early completion of the Kwalsa projects (Douglas, Fire, Stokke, Tipella) and the Stave projects (Lamont and Upper Stave). The bonus is calculated based on 75% of net revenues received from BC Hydro in respect of all energy generated before November 1, 2009 for Kwalsa projects, and November 1, 2010 for the Stave projects. An accrual of $945,702 up to December 31, 2009 was included in the 2009 accounts payable and accrued liabilities. 60% is payable upon substantial completion and satisfaction of other completion requirements for Kwalsa. The remainder is payable upon substantial completion and satisfaction of other completion requirements for Upper Stave.

f) The company has two leases as follows:

- lease for premises requiring monthly lease payments of $4,087 plus operating costs. The lease expires October 31, 2010 and has one five-year renewal term.

- lease for premises requiring monthly lease payments of $4,697 plus operating costs. The lease expires August 31, 2012 and has one five-year renewal term.

Lease payments required over the next five years are:

| | $ |
|---|---:|
| 2010 | 98,318 |
| 2011 | 59,589 |
| 2012 | 39,726 |
| 2013 | - |
| 2014 | - |
| | 197,633 |

g) Other commitments and contingencies are disclosed elsewhere in these consolidated financial statements and notes.

## 15 Related party loans

Balances with related parties at December 31, 2009 were as follows:

| | 2009 $ | 2008 $ (Unaudited) |
|---|---|---|
| Loan to High Pass Energy Inc. | 130,006 | 83,733 |
| Loan to 647867 B.C. Ltd. | - | 13,803 |
| Loan to Harrison Hydro Inc. | 2,750 | 32,765 |
| Loan to Cloudworks Holdings Inc. | 2,300 | 1,300 |
| | 135,056 | 131,601 |

## 16 Financial instruments

### Fair value

The fair values of cash and cash equivalents, restricted cash and short-term investments, accounts receivable, due from related parties, GST and other receivable, accounts payable and accrued liabilities, and holdback payable approximate their carrying values due to their short-term nature.

The fair value of the structured deposit note receivable was $62,897,704 at December 31, 2009.

The fair value of the long-term debt was $417,822,000 at December 31, 2009.

The fair values of the structured deposit note receivable and long-term debt were determined with respect to discounted cash flow valuation techniques. Significant assumptions as to the underlying discount rate used were rates for instruments having similar terms and characteristics including credit spreads, the creditworthiness of the company, forward yield curves, and the term to repayment of the principal amount of the instrument.

### Credit risk

Management believes the Company has limited exposure to credit risk as its financial assets are primarily held by large Canadian financial institutions. The total amount of exposure to credit risk is $155,203,946, which is the total of the Company's cash and cash equivalents, restricted cash and short-term investments, accounts receivable, due from related parties, structured deposit note receivable, and long-term restricted cash.

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. The Company manages its liquidity risk by ensuring that appropriate sources of financing are available at reasonable costs of capital and that its operational activities are conducted to meet planned objectives.

A maturity analysis of the undiscounted cash flows of the Company's liabilities at December 31, 2009 is as follows:

| | Within 1 year $ | Between 1 and 2 years $ | Between 2 and 3 years $ | Between 3 and 4 years $ | Between 4 and 5 years $ | Over 5 years $ |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 45,440,342 | - | - | - | - | - |
| Holdback payable | 34,612,877 | - | - | - | - | - |
| Long-term debt | - | 6,851,076 | 7,121,537 | 7,403,798 | 7,698,421 | 496,482,340 |
| | 80,053,219 | 6,851,076 | 7,121,537 | 7,403,798 | 7,698,421 | 496,482,340 |

### Market risks

*Foreign currency risk*

The Company is not exposed to foreign currency risk.

*Interest rate risk*

The Company is exposed to some interest rate risk through its long-term debt.

The Company's long-term debt comprises debt with a fixed rate of 5.564% and debt with rates of 2.958% and 4.273% indexed to Canada's CPI for real return bonds. This indexing creates the risk of unknown future payments for interest. Management has sought to manage this risk through the negotiation of rates for electricity that are also indexed.

## 17 Subsequent events

a) Financing

On September 14, 2010, the Company arranged a loan facility to finance the further development of some of its projects. The total loan available is $15,000,000 and the Company has drawn $2,000,000 to date. Interest on the loan is based on Banker's Acceptance ("BA") rates in effect as well as a fixed charge of 6%. The Company is also charged a holding fee of 1.5% on the unused balance of the loan.

b) Options issued

The Company issued 20,000 options on January 15, 2010 with an exercise price of $60, expiring on August 14, 2012.

It also issued 10,000 options on April 19, 2010 with an exercise price of $70, expiring on March 15, 2015 and 6,300 options on July 5, 2010 with an exercise price of $75, expiring on July 5, 2015.

c) First Nations agreements

The Company entered into an agreement with Chehalis Indian Band enabling the Band to participate in future earnings of a number of projects should those projects go forward to completion.

# CLOUDWORKS ENERGY INC.

## Consolidated Financial Statements

## (Unaudited - Prepared By Management)

## For the Nine Months Ended September 30, 2010

# Cloudworks Energy Inc.

Consolidated Balance Sheet

(Unaudited - Prepared By Management)

As at September 30, 2010

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and short term deposits | $ 1,267,574 | $ 1,293,584 |
| Restricted cash and short-term investments (note 2) | 77,743,230 | 63,861,294 |
| Accounts receivable | 6,100,630 | 3,558,476 |
| Income tax recoverable (note 3) | 654,814 | - |
| Due from related party | 150,283 | 135,056 |
| GST and other receivables | 69,127 | 191,571 |
| Prepaid expenses | 379,497 | 434,568 |
| Structured note receivable (note 4) | 32,655,412 | 61,337,009 |
| | 119,020,567 | 130,811,558 |
| **Long-term restricted cash** | 26,120,333 | 25,018,527 |
| **New project development** (note 5) | 7,287,080 | 5,848,369 |
| **Projects under construction** | - | 83,792,258 |
| **Capital assets** (note 6) | 445,347,841 | 352,993,467 |
| | $ 597,775,821 | $ 598,464,179 |
| **Liabilities** | | |
| **Current:** | | |
| Accounts payable and accrued liabilities | $ 34,250,835 | $ 45,440,342 |
| Holdback payable | 37,568,211 | 34,612,877 |
| Current portion of truck loans (note 7) | 56,959 | 74,764 |
| Bank loans (note 8) | 2,638,750 | - |
| | 74,514,755 | 80,127,983 |
| **Long-term debt** (note 7 & 9) | 530,876,734 | 525,605,405 |
| | 605,391,489 | 605,733,388 |
| **Shareholders' Deficiency** | | |
| **Share capital** | 4,968,623 | 4,968,623 |
| **Contributed surplus** | 1,579,608 | 1,158,985 |
| **Deficit** | (14,163,899) | (13,396,817) |
| | (7,615,668) | (7,269,209) |
| | $ 597,775,821 | $ 598,464,179 |

**Contingency - note 10**

# Cloudworks Energy Inc.

Consolidated Statement of Operations and Deficit

(Unaudited - Prepared By Management)

For the nine months ended September 30, 2010

| | Nine months ended September 30, 2010 | Nine months ended September 30, 2009 |
|---|---|---|
| **Income** | | |
| Energy revenue | $ 42,214,710 | $ 304,758 |
| Interest income | 1,793,975 | 357,553 |
| Other income | - | 1,720,578 |
| | 44,008,685 | 2,382,889 |
| **Expenses:** | | |
| Interest | 20,856,283 | 1,787,315 |
| Development | 9,771,538 | 2,522,458 |
| Depreciation and amortization | 10,340,137 | 1,402,588 |
| Operating | 2,807,378 | 1,147,510 |
| General and administrative | 738,826 | 643,608 |
| Stock-based compensation | 420,623 | 415,907 |
| Royalties | 495,796 | 3,048 |
| | 45,430,581 | 7,922,434 |
| **Loss before other items** | 1,421,896 | 5,539,545 |
| **Income taxes (recovery)** | (654,814) | - |
| **Net loss for the period** | 767,082 | 5,539,545 |
| **Deficit, beginning** | 13,396,817 | 7,773,903 |
| **Deficit, ending** | $ 14,163,899 | $ 13,313,448 |

# Cloudworks Energy Inc.

Consolidated Statement of Cash Flow

(Unaudited - Prepared By Management)

For the nine months ended September 30, 2010

| | Nine months ended September 30, 2010 | Nine months ended September 30, 2009 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income (loss) for the period | $ (767,082) | $ (5,539,545) |
| Non-cash items - depreciation and amortization | 10,340,137 | 1,402,588 |
| - stock-based compensation | 420,623 | 415,907 |
| - compensation interest expense | 5,048,500 | - |
| | 15,042,178 | (3,721,050) |
| Changes in non-cash working capital items | | |
| Accounts receivable | (2,542,154) | 4,718 |
| Income tax recovery | (654,814) | - |
| Due from related party | (15,227) | (46,275) |
| GST & other receivables | 122,444 | 412,174 |
| Prepaid expenses | 55,071 | (1,422) |
| Accounts payable and accrued liabilities | 5,208,156 | 2,455,324 |
| | 17,215,654 | (896,531) |
| **Cash flows from investing activities** | | |
| Additions to projects under development | (1,438,711) | (564,734) |
| Additions to projects under construction | (32,549,937) | (86,389,103) |
| Net change in restricted cash | (14,983,742) | 18,077,034 |
| Net drawdown on structured deposit note | 30,321,853 | 70,052,215 |
| Net additions to capital assets | (534,751) | (561,827) |
| | (19,185,288) | 613,585 |
| **Cash flows from financing activities** | | |
| Loans proceeds received | 2,000,000 | - |
| Repayment of truck loans | (56,376) | (74,331) |
| | 1,943,624 | (74,331) |
| **Decrease in cash and cash equivalents** | (26,010) | (357,277) |
| **Cash and cash equivalents, beginning** | 1,293,584 | 1,374,805 |
| **Cash and cash equivalents, ending** | $ 1,267,574 | $ 1,017,528 |
| | | |
| **Supplementary cash flow information:** | | |
| Interest received | 309,933 | 362,488 |
| Interest paid | 18,344,197 | 18,281,094 |
| | | |
| **Non-cash items:** | | |
| Capital assets and construction costs included in accounts payable | 21,894,725 | 37,655,974 |
| Capital assets and construction costs included in holdback payable | 37,568,211 | 33,071,055 |

## 1 Significant disclosures:

These financial statements should be read in conjunction with the audited financial statements prepared to December 31, 2009. The nature of operations, significant accounting policies and other disclosures remain unchanged and have therefore not been reproduced in these quarterly financial statements

## 2 Restricted cash and short-term investments

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Restricted chequing accounts | 4,988,487 | 5,484,152 |
| Bond Proceeds Escrow account | 16,116,871 | 11,861,397 |
| Senior Debt Service Payment account | 4,174,887 | 5,423,432 |
| Junior Debt Service Payment account | 107,491 | 105,345 |
| Early Completion Bonus account | 7,181,894 | - |
| Lien Holdback | 37,616,677 | 34,346,395 |
| Distribution | 25 | 25 |
| Letter of credit (BC Hydro) to secure delivery of energy under two EPA's - refundable amount | 7,556,898 | 6,640,548 |
| | $ 77,743,230 | $ 63,861,294 |

## 3 Income tax recoverable

The Company had the following income tax adjustments in 2010:

| | |
|---|---|
| Canada Revenue Agency (CRA) income tax interest reversal related to 2007 | $ (164,172) |
| Income tax recovery due to amending 2008 | (564,201) |
| Interest recovery due to amending 2008 | (39,604) |
| Additional tax owing due to CRA audit and reassessment of 2007 | 120,675 |
| Interest related to CRA audit and reassessment of 2007 | 10,314 |
| CRA interest on refunds owing | (17,826) |
| Income tax recoverable | $ (654,814) |

The Company may also have additional tax owing due to incorrectly issuing dividends in 2007 classified as "eligible" while claiming a deduction for CRCE. An approximate penalty of $400,000 may be assessed. Alternatively the Company may refile the year and pay additional tax thereby keeping an allowable CRCE deduction for future use.

The Company has filed a notice of objection related to the 2007 CRA reassessment. CRA has not yet responded and as a result the Company is unable to determine if any portion of the CRA assessment for 2007 will be reversed.

## 4 Structured deposit note receivable

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Principal outstanding | $ 6,858,729 | $ 37,180,582 |
| Accrued interest | 25,796,683 | 24,156,427 |
| | $ 32,655,412 | $ 61,337,009 |

## 5 New project development

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Big Silver | $ 1,339,934 | $ 1,051,830 |
| Tretheway | 1,080,332 | 731,011 |
| Statlu | 839,556 | 730,639 |
| Shovel | 694,009 | 435,981 |
| Northwest Stave | 798,288 | 475,632 |
| Other (33) | 2,534,961 | 2,423,276 |
| | $ 7,287,080 | $ 5,848,369 |

## 6 Capital assets

| | Net Book Value December 31, 2009 | Additions | Depreciation / amortization | Net Book Value Sept 30, 2010 |
|---|---|---|---|---|
| Hydro plant infrastructure | $ 266,285,498 | $ 76,409,507 | $ 5,893,691 | 336,801,314 |
| Generators and turbines | 80,272,756 | 22,863,381 | 3,630,103 | 99,506,034 |
| Communications systems | 2,806,744 | 963,513 | 135,224 | 3,635,033 |
| Camp buildings and containers | 448,511 | 427,620 | 28,040 | 848,091 |
| Spare part inventory | 1,657,494 | 374,960 | 303,808 | 1,728,646 |
| Heavy equipment and vehicles | 559,429 | 482,029 | 180,099 | 861,359 |
| Boats | 206,727 | 141,113 | 31,194 | 316,646 |
| Computer equipment | 58,635 | 11,689 | 32,807 | 37,517 |
| Equipment, furniture and fixtures | 169,408 | 72,291 | 57,462 | 184,237 |
| Leasehold improvements | 123,235 | 218 | 28,756 | 94,697 |
| Radio / communication equipment | 31,199 | 736 | 4,735 | 27,200 |
| Software | 16,051 | 3,741 | 13,441 | 6,351 |
| Storage facilities | 10,347 | - | 777 | 9,570 |
| Strata property | - | 942,036 | - | 942,036 |
| Land | 347,433 | 1,677 | - | 349,110 |
| | $ 352,993,467 | $ 102,694,511 | $ 10,340,137 | $ 445,347,841 |

## 7 Truck Loans

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Interest-free loans repayable in monthly instalments of $747 to $1,212, principal only | $ 42,198 | $ 73,134 |
| Loans with interest at 0.9% repayable in monthly instalments of $918 to 942, principal and interest | 24,423 | 49,863 |
| | 66,621 | 122,997 |
| Less: current portion | 56,959 | 74,764 |
| | $ 9,662 | $ 48,233 |

**8 Bank loans**

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| National Bank of Canada term loan with monthly payments of $3,549 plus interest at prime plus 1% | $ 638,750 | $ - |
| Royal Bank of Canada BA rate loan with interest at 6% plus the BA rate in effect whenever the loan term is extended. | 2,000,000 | - |
| | $ 2,638,750 | $ - |

The RBC loan is part of a $15,000,000 credit facility. The Company is required to pay a 1.5% standby fee on the unused amount of the facility (currently $13,000,000).

**9 Long-term debt:**

| | Senior Real Return Rate Loan | Senior Fixed Rate Loan | Junior Real Return Rate Loan | Total |
|---|---|---|---|---|
| Loans payable | $ 245,185,000 | $ 246,000,000 | $ 27,243,000 | $ 518,428,000 |
| Inflation compensation interest to Sept 30, 2010 | 11,195,207 | - | 1,243,865 | 12,439,072 |
| Balance Sept 30, 2010 | $ 256,380,207 | $ 246,000,000 | $ 28,486,865 | $ 530,867,072 |

**10 Contingency:**

The Province of B.C. has revised the assessed property values related to the operating hydro projects. The Company is expecting revised property tax assessments as a result, although nothing has been received to date. The Company estimates the additional net property tax amount at $1,400,000.

*Unaudited Pro forma Consolidated Financial Statements of*

# INNERGEX RENEWABLE ENERGY INC.

*September 30, 2010*

*December 31, 2009*

# INNERGEX RENEWABLE ENERGY INC.

**Unaudited Pro forma Consolidated Statement of Earnings**
**(in thousands of Canadian dollars except as noted and amounts per share)**

| Nine-Month period ended September 30, 2010 | Innergex Renewable Energy Inc. (Note 4) | Cloudworks Energy Inc. | Pro forma adjustments (Note 3) | | Pro forma Innergex Renewable Energy Inc. |
|---|---|---|---|---|---|
| | $ | $ | $ | | $ |
| **Revenues** | | | | | |
| Operating | 69,464 | 42,215 | - | | 111,679 |
| | 69,464 | 42,215 | - | | 111,679 |
| **Expenses** | | | | | |
| Operating expenses | 9,394 | 3,303 | | | 12,697 |
| Stock-based compensation | 276 | 421 | (421) | (f) | 276 |
| General and administrative expenses | 7,130 | 739 | | | 7,869 |
| | 16,800 | 4,463 | (421) | | 20,842 |
| Earnings from operations | 52,664 | 37,752 | 421 | | 90,837 |
| Prospective projects expenses | 1,639 | 9,772 | 410 | (g) | 11,821 |
| Earnings before interest, income taxes, depreciation and amortization and other items | 51,025 | 27,980 | 11 | | 79,016 |
| Interest on long-term debt and convertible debentures | 18,431 | 20,856 | 871 | (h) | 40,158 |
| Realized gain on derivative financial instruments | (555) | - | - | | (555) |
| Realized foreign exchange gain | (26) | - | - | | (26) |
| Other net revenues | (1,162) | (1,794) | - | | (2,956) |
| Earnings (loss) before income taxes, depreciation and amortization and other items | 34,337 | 8,918 | (860) | | 42,395 |
| Depreciation and amortization | 25,491 | 10,340 | 44 | (i) | 35,875 |
| Unrealized net loss on derivative financial instruments | 37,077 | - | - | | 37,077 |
| Expenses related to royalty agreement upon share exchange arrangement | 983 | - | - | | 983 |
| Unrealized foreign exchange gain | (6) | - | - | | (6) |
| Loss before income taxes | (29,208) | (1,422) | (904) | | (31,534) |
| Recovery of income taxes | | | | | |
| Current | (1,285) | (655) | - | | (1,940) |
| Future | (5,881) | - | (948) | (j) | (6,829) |
| | (7,166) | (655) | (948) | | (8,769) |
| **Net (loss) earnings** | (22,042) | (767) | 44 | | (22,765) |
| Weighted average number of shares outstanding (in 000) | 59,533 | - | 21,232 | (a) | 80,765 |
| Basic net loss per share | (0.37) | - | - | | (0.28) |
| Diluted net loss per share | (0.37) | - | - | | (0.28) |

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

# INNERGEX RENEWABLE ENERGY INC.

**Unaudited Pro forma Consolidated Statement of Earnings**
**(in thousands of Canadian dollars except as noted and amounts per share)**

| Year-ended December 31, 2009 | Innergex Renewable Energy Inc. (Note 4) | Cloudworks Energy Inc. | Pro forma adjustments (Note 3) | | Pro forma Innergex Renewable Energy Inc. |
|---|---|---|---|---|---|
| | $ | $ | $ | | $ |
| **Revenues** | | | | | |
| Operating | 78,580 | 8,771 | - | | 87,351 |
| Management fees | 277 | - | - | | 277 |
| | 78,857 | 8,771 | - | | 87,628 |
| **Expenses** | | | | | |
| Operating expenses | 9,983 | 1,749 | - | | 11,732 |
| Stock-based compensation | 299 | 416 | (416) | (f) | 299 |
| General and administrative expenses | 7,986 | 771 | - | | 8,757 |
| | 18,268 | 2,936 | (416) | | 20,788 |
| Earnings from operations | 60,589 | 5,835 | 416 | | 66,840 |
| Prospective projects expenses | 2,306 | 4,779 | 637 | (g) | 7,722 |
| Earnings (loss) before interest, income taxes, depreciation and amortization and other items | 58,283 | 1,056 | (221) | | 59,118 |
| Interest on long-term debt and convertible debenture | 22,952 | 5,429 | 858 | (h) | 29,239 |
| Realized loss on derivative financial instrument | 1,497 | - | - | | 1,497 |
| Realized foreign exchange gain | (182) | - | - | | (182) |
| Other (revenues) and expenses | (111) | (2,695) | - | | (2,806) |
| Earnings (loss) before income taxes, depreciation and amortization and other items | 34,127 | (1,678) | (1,079) | | 31,370 |
| Depreciation and amortization | 29,090 | 3,945 | (75) | (i) | 32,960 |
| Unrealized net gain on derivative financial instruments | (24,024) | - | - | | (24,024) |
| Unrealized foreign exchange gain | (320) | - | - | | (320) |
| Impairment of project development costs | 421 | - | - | | 421 |
| Impairment of goodwill | 22,458 | - | - | | 22,458 |
| Earnings (loss) before income taxes and non-controlling interest | 6,502 | (5,623) | (1,004) | | (125) |
| Provision for (recovery of) income taxes | | | | | |
| Current | (31) | - | - | | (31) |
| Future | 6,754 | - | (413) | (j) | 6,341 |
| | 6,723 | - | (413) | | 6,310 |
| Loss before non-controlling interest | (221) | (5,623) | (591) | | (6,435) |
| Loss allocated to non-controlling interest | 253 | - | - | | 253 |
| **Net earnings (loss)** | 32 | (5,623) | (591) | | (6,182) |
| Weighted average number of shares outstanding (in 000) | 59,533 | - | 21,232 | (a) | 80,765 |
| Basic net earnings (loss) per share | 0.00 | - | - | | (0.08) |
| Diluted net earnings (loss) per share | 0.00 | - | - | | (0.08) |

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

# INNERGEX RENEWABLE ENERGY INC.

**Unaudited Pro forma Consolidated Balance Sheet**
**(in thousands of Canadian dollars except as noted and amounts per share)**

| As at September 30, 2010 | Innergex Renewable Energy Inc. | Cloudworks Energy Inc. | Pro forma adjustments (Note 3) | | Pro forma Innergex Renewable Energy Inc. |
|---|---|---|---|---|---|
| | $ | $ | $ | | $ |
| **Assets** | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 37,711 | 1,268 | 160,820 | (a) | |
| | | | (8,000) | (a) | |
| | | | (1,000) | (a) | |
| | | | (143,034) | (b) | |
| | | | (2,639) | (b) | 45,126 |
| Restricted cash and short-term investments | - | 77,743 | - | | 77,743 |
| Accounts receivable | 13,804 | 6,975 | - | | 20,779 |
| Current portion of reserve accounts | 494 | - | - | | 494 |
| Current portion of future income taxes | 2,217 | - | - | | 2,217 |
| Current portion of derivative financial instruments | 1,458 | - | - | | 1,458 |
| Prepaid and others | 5,221 | 380 | - | | 5,601 |
| Structured note receivable | - | 32,655 | - | | 32,655 |
| | 60,905 | 119,021 | 6,147 | | 186,073 |
| Reserve Accounts | 20,966 | 26,120 | - | | 47,086 |
| Property, plant and equipment | 608,908 | 445,348 | - | | 1,054,256 |
| Intangible assets | 179,305 | - | 124,966 | (d) | 304,271 |
| Project development costs | 15,738 | 7,287 | 81,140 | (d) | 104,165 |
| Derivative financial instruments | 8,926 | - | - | | 8,926 |
| Future income taxes | 10,539 | - | - | | 10,539 |
| Goodwill | 8,269 | - | - | | 8,269 |
| Other long-term assets | 159 | - | - | | 159 |
| | 913,715 | 597,776 | 212,253 | | 1,723,744 |

# INNERGEX RENEWABLE ENERGY INC.

**Unaudited Pro forma Consolidated Balance Sheet**
**(in thousands of Canadian dollars except as noted and amounts per share)**

| As at September 30, 2010 | Innergex Renewable Energy Inc. | Cloudworks Energy Inc. | Pro forma adjustments (Note 3) | | Pro forma Innergex Renewable Energy Inc. |
|---|---|---|---|---|---|
| | $ | $ | $ | | $ |
| **Liabilities** | | | | | |
| Current liabilities | | | | | |
| Dividends payable to shareholders | 8,632 | - | - | | 8,632 |
| Accounts payable and accrued liabilities | 19,893 | 34,251 | - | | 54,144 |
| Holdback payable | - | 37,568 | - | | 37,568 |
| Bank loans | - | 2,639 | (2,639) | (b) | - |
| Current portion of future income taxes | 289 | - | - | | 289 |
| Current portion of derivative financial instruments | 8,873 | - | - | | 8,873 |
| Current portion of long-term debt | 9,163 | 57 | - | | 9,220 |
| | 46,850 | 74,515 | (2,639) | | 118,726 |
| Derivative financial instruments | 36,916 | - | - | | 36,916 |
| Long-term debt | 335,087 | 530,877 | (34,800) | (d) | 831,164 |
| Asset retirement obligations | 1,559 | - | - | | 1,559 |
| Future income taxes | 70,908 | - | 49,929 | (d) | 120,837 |
| Convertible debentures | 79,296 | - | - | | 79,296 |
| | 570,616 | 605,392 | 12,490 | | 1,188,498 |
| **Shareholders' equity** | | | | | |
| Common shareholders' capital account | 1 | 4,969 | 160,820 | (a) | |
| | | | (8,000) | (a) | |
| | | | 39,327 | (a) | |
| | | | (4,969) | (e) | 192,148 |
| Contributed surplus from reduction of capital on common shares | 420,627 | - | - | | 420,627 |
| Series A Preferred Shares | 82,740 | - | - | | 82,740 |
| Stock-based compensation | 700 | 1,580 | (1,580) | (e) | 700 |
| Equity portion of convertible debentures | 1,841 | - | - | | 1,841 |
| Deficit | (162,892) | (14,165) | 14,165 | (e) | (162,892) |
| Cumulative other comprehensive income | 82 | - | - | | 82 |
| | 343,099 | (7,616) | 199,763 | | 535,246 |
| | 913,715 | 597,776 | 212,253 | | 1,723,744 |

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

## 1. Description of business

Innergex Renewable Energy Inc. (the "Corporation") was incorporated under the *Canada Business Corporation Act* on October 25, 2002. The Corporation is an independent developer, owner and operator of renewable power-generating facilities, essentially focused on the hydroelectric and wind power sectors.

Pursuant to the share exchange arrangement as described in Note 4 (the"Arrangement"), the Corporation acquired 100% of the issued and outstanding units of Innergex Power Income Fund ("the Fund") by issuing 36,033 thousands common shares of the Corporation. The Fund was an unincorporated open-ended trust established on October 25, 2002 under the laws of the Province of Quebec. The Fund, which began operations on July 4, 2003, was established to indirectly acquire and own interests in renewable power generating facilities. Legally, the Corporation became the parent of the Fund. However, as a result of the transaction, control of the combined entity remains with former unitholders of the Fund, and the Fund is being identified as the acquirer for accounting purpose. This type of share exchange is referred to as a "reverse takeover". In a reverse takeover situation, the legal parent is deemed to be a continuation of the acquiring enterprise, i.e., the legal subsidiary. As a result, the consolidated financial statements are a continuation of the consolidated financial statements of the Fund. The capital stock represents the authorized and issued share of the legal parent and the dollar amount of shareholders' equity is that of the Fund.

Cloudworks Energy Inc. ("Cloudworks") is a privately owned company incorporated under the former *Company Act* (British Columbia) and recognized as a company under the Business *Corporations Act* (British Columbia) that principally develops, constructs and operates run-of-river hydroelectric projects in British Columbia.

Cloudworks currently holds (i) an indirect interest of 50.01 % in six operating run-of-river hydroelectric facilities, (ii) 100 % of three development-stage run-of-river hydroelectric projects with power purchase agreements and (iii) 100 % of various prospective projects in renewable energy generation.

## 2. Basis of presentation

The unaudited pro forma consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") from information derived from the financial statements of the Corporation and Cloudworks together with other information available to the Corporation.

The unaudited pro forma consolidated financial statements have been prepared for inclusion in the short form prospectus of the Corporation dated February 25, 2011 (the "Prospectus"), in conjunction with the proposed acquisition of the common shares of Cloudworks (the "Acquisition"). The Acquisition is subject to certain regulatory approvals. Also, the unaudited pro forma consolidated financial statements include the financial effects of the distribution of 17,200 thousands subscription receipts of the Corporation pursuant to the Prospectus ("the Offering"). Each subscription receipt will entitle the holder thereof to receive, upon closing of the Acquisition and without payment of additional consideration, one common shares of the Corporation pursuant to the Prospectus to be filed by the Corporation.

In the opinion of management, the unaudited pro forma consolidated financial statements include all adjustments necessary for fair presentation of the matters described below:

Pursuant to a share purchase agreement dated as of February 14, 2011 the Corporation has agreed to acquire all of the issued and outstanding shares of Cloudworks for an aggregate consideration of (i) subject to certain adjustments, $ 185,000 of which approximately $ 145,673 will be payable in cash and approximately $ 39,327 will be payable by the issuance of common shares of the Corporation by way of private placement and (ii) certain conditional deferred payments based on the performance of the Cloudworks portfolio of assets, subject to the fulfillment or waiver of certain customary closing conditions.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the operating results or financial condition that would have been achieved if the proposed Acquisition had been completed on the dates or for the periods presented, nor do they purport or project the results of operations or financial position of the combined entities for any future period or as of any future date. In particular, Cloudworks operating facilities were under construction for the most part of the 2009 year.

The pro forma adjustments and purchase price allocation have been determined from information available to the management of the Corporation at this time and incorporates and reflects management's preliminary assessment of the fair value of the net assets to be acquired. The allocation of the purchase price to the assets and liabilities of Cloudworks will be finalized after the acquisition has been completed and the final fair values of the assets and liabilities have been determined and, accordingly, the purchase price allocation is subject to change.

The unaudited pro forma consolidated financial statements of the Corporation have been compiled from and include:

(a) an unaudited pro forma consolidated balance sheet as at September 30, 2010, giving effect to the Acquisition, the Offering and various pro forma assumptions and adjustments described in Note 3 as if those had occurred on September 30, 2010, therefore combining the unaudited consolidated balance sheet of the Corporation as at September 30, 2010, and the unaudited consolidated balance sheet of Cloudworks as at September 30, 2010.

(b) an unaudited pro forma consolidated statement of earnings for the nine-month period ended September 30, 2010 giving effect to the Acquisition, the Offering, the Arrangement and various pro forma assumptions and adjustments described in Note 3 and Note 4 as if those had occurred on January 1, 2009, therefore combining the unaudited pro forma consolidated statement of earnings of the Corporation for the nine-month period ended September 30, 2010, and the unaudited consolidated statement of earnings of Cloudworks for the nine-month period ended September 30, 2010.

(c) an unaudited pro forma consolidated statement of earnings for the year ended December 31, 2009, giving effect to the Acquisition, the Offering, the Arrangement and various pro forma assumptions and adjustments described in Note 3 and Note 4 as if those had occurred on January 1, 2009, therefore combining the unaudited pro forma consolidated statement of earnings of the Corporation for the year ended December 31, 2009 and the audited consolidated statement of earnings of Cloudworks for the year ended December 31, 2009.

Cloudworks financial statements include the consolidation of 100 % of the assets and liabilities of the six operating run-of-river hydroelectric facilities in which it holds a 50.01 % indirect interest.

The unaudited pro forma consolidated financial statements should be read in conjunction with the description of the Acquisition included elsewhere in the Prospectus.

The unaudited pro forma consolidated financial statements should also be read in conjunction with the audited and unaudited consolidated financial statements of the Corporation and the Fund incorporated by reference in the Prospectus and the audited and unaudited financial statements of Cloudworks included elsewhere in the Prospectus.

The unaudited consolidated pro forma financial statements reflect the issuance of 21,232 thousands common shares for gross proceeds of $ 200,147.

The pro forma adjustments reflecting the Acquisition are accounted for using the purchase method of accounting and are tentative and based on available financial information and certain estimates and assumptions. The actual adjustements to the consolidated financial statements of the Corporation will depend on a number of factors, including changes in the net book value and operating results of the acquired business between September 30, 2010 and the actual acquisition date. Therefore, the actual adjustements will differ from the pro forma adjustments. However, management believes that such assumptions provide a reasonable basis for presenting all the significant financial effects directly attributable to the Acquisition and the Offering contemplated and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the pro forma consolidated financial statements.

## 3. Pro forma assumptions and adjustments related to the Acquisition

The unaudited pro forma consolidated financial statements have been presented assuming that the following transactions had been completed and adjustement had been effected as of January 1, 2009 for the consolidated statements of earnings for the year ended December 31, 2009 and for the nine-month period ended September 30, 2010 and as of September 30, 2010 for the consolidated balance sheet.

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

(a) The net proceeds from the Offering under the Prospectus, assuming no exercise of an over allotment option along with the private placement will be determined as follows:

| | Prospectus | Private placement | Total |
|---|---|---|---|
| Shares to be issued (in 000's) | 17,200 | 4,032 | 21,232 |
| Price of shares ($ per share) | 9.35 | 9.7549 | 9.43 |
| Value of shares that have to be issued | 160,820 | 39,327 | 200,147 |
| Issuance fees | | | (8,000) |
| Transaction fees | | | (1,000) |
| Net proceeds | | | 191,147 |

From the net proceeds of $ 191,147 a total of $ 185,000 will be used for the acquisition of Cloudworks. The balance will be used by the Corporation to enhance its financial flexibility, to reduce indebtness and for general corporate purposes.

(b) At closing of the Acquisition, the Corporation will acquire from Cloudworks' shareholders their equity interests in Cloudworks, such that Cloudworks will be wholly-owned by the Corporation, which will effectively be paid by $ 143,034 ($ 145,673 from shares to be issued net $ 2,639 of repayment of the bank loan) in cash and by the issue to Cloudworks' shareholders of 4,032 thousands common shares of the Corporation for $ 39,327 and certain conditional deferred payments based on the performance of the Cloudworks portfolio of assets.

(c) The total estimated purchase price has been calculated as follows:

| | $ |
|---|---|
| Purchase price to vendors | 185,000 |
| Transaction fees | 1,000 |
| Total purchase price | 186,000 |

(d) The following table reflects the preliminary purchase price allocation, which is subject to a final valuation, the impact of which is not expected to have a material effect on the results of operations:

| | Purchase price allocation | Balance sheet Cloudworks September 30, 2010 | Pro forma adjustments |
|---|---|---|---|
| | $ | $ | $ |
| Cash and cash equivalents | 1,268 | 1,268 | - |
| Restricted cash and short-term investments | 77,743 | 77,743 | - |
| Accounts receivable | 6,975 | 6,975 | - |
| Prepaid and others | 380 | 380 | - |
| Structure note receivable | 32,655 | 32,655 | - |
| Reserve Accounts | 26,120 | 26,120 | - |
| Property, plant and equipement | 445,348 | 445,348 | |
| Intangible assets | 124,966 | - | 124,966 |
| Project development costs | 88,427 | 7,287 | 81,140 |
| Accounts payable and accrued liabilities | (34,251) | (34,251) | - |
| Holdback payable | (37,568) | (37,568) | - |
| Bank loan | - | (2,639) | 2,639 |
| Current portion of long-term debt | (57) | (57) | - |
| Long-term debt | (496,077) | (530,877) | 34,800 |
| Future income taxes | (49,929) | - | (49,929) |
| Net assets acquired | 186,000 | (7,616) | 193,616 |

The non-controlling interest in the six operating run-of-river hydroelectric power facilities has been reduced to nil following losses incurred on the facilities. Accordingly, no other losses were allocated to non-controlling interest for the nine-month period ended September 30, 2010 and for the year ended December 31, 2009.

The estimated transaction fees relating to the Acquisition totalling $ 1,000 have been recognized as transaction fees of the business combination in accordance with Section 1581 of the CICA Handbook.

The total purchase price of $ 186,000 is allocated between share capital for an amount of $ 185,000 and transactions fees for an amount of $ 1,000.

(e) The share capital, stock based compensation and retained earnings of Cloudworks are eliminated upon consolidation of balance sheet as the transaction in accounted for as an acquisition of Cloudworks by the Corporation.

(f) The outstanding stock options of Cloudworks will be cancelled prior to the Acquisition. The stock-based compensation expense of Cloudworks is then eliminated, resulting in a $ 421 expense decrease for the nine-month period ended September 30, 2010 and a $ 416 expense decrease for the year ended December 31, 2009.

(g) Following Innergex' policies, the prospective project costs that were capitalized by Cloudworks need to be expensed, resulting in an expense of $ 410 for the nine-month period ended September 30, 2010 and an expense of $ 637 for the year ended December 31, 2009.

(h) The short-term credit facilities of Cloudworks will be repaid at closing and cancelled. The related interest expense will decrease. Interest expense has also been adjusted as a result of accounting the long-term debt assumed at fair value and giving effect to the Acquisition having occurred as of January 1, 2009. For the nine-month period ended September 30, 2010, the interest on long-term debt is increased by $ 871 and for the year ended December 31, 2009 by $ 858.

(i) Depreciation and amortization has been increased by a net amount of $ 44 for the nine-month period ended September 30, 2010 and decreased by a net amount of $ 75 for the year ended December 31, 2009. These adjustments are the result of applying fair values to the intangible assets acquired and giving effect to the acquisition having occurred on January 1, 2009, (increase in amortization of $ 2,126 for the nine-month period ended September 30, 2010 and increase in amortization of $ 683 for the year ended December 31, 2009) and to the harmonization of the depreciation policies between Cloudworks and the Corporation (decrease in depreciation of $ 2,082 for the nine-month period ended September 30, 2010 and decrease in depreciation of $ 758 for the year ended December 31, 2009).

(j) Income taxes have been adjusted for the following items:

   (1) The subsequent recognition of Canadian future income taxes expenses as a result of the Transaction have been adjusted. For the nine-month period ended September 30, 2010 the impact to future income tax was $ 948 and for the year ended December 31, 2009 the impact to future income taxes was $ 413.

   (2) The combined provincial and federal income tax rate assumed in the calculation of future income taxes is 25 %.

(k) Potential cost synergies have not been included in the unaudited pro forma consolidated statement of earnings. Consistent with rules for preparation of a pro forma as set out in National Instrument 51-102 Continuous

Disclosure Obligations, for synergies to be included, they must be substantiated with firm commitments and be objectively determinable.

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

## 4. Pro forma assumptions and adjustments related to the share exchange arrangement

The unaudited pro forma c onsolidated financial statements have been presented assuming that the fol lowing transactions had been com pleted and adjustement had b een effected as of Januar y 1, 2009 for the consolidated statements of earnings for the year ended December 31, 2009 and for the nine-month period ended September 30, 2010 and as of September 30, 2010 for the consolidated balance sheet.

On March 29, 2010, the Corporation acquir ed from the Fund's unithol ders their equity interests in the Fund, such that the Fund became wholly-owned by the Corporation. The acquisition was effectively paid by the issuance to the Fund's unitholders of 36,033 thousands common s hares. After the transaction, the C orporation, which was having 23,500 thousands common shares issued prior to the Arrangem ent, fell under the control of the unitholders of the Fund. Therefore, this transaction resulted in a reverse takeover.

As a result, for accounting purposes, the Corporation is required to be accounted for as though it was a continuation of the Fund but with its share capital reflecting the exchange of the Corporation shares for Fund units.

As a result of the share exchange arrangement, the Corporation also recorded an adjustment to futur e tax liabilities. This adjustment reflects the t ax impact of recording future tax assets and liabilities for temporar y differences that are reversing or settling pri or to 2011 which were previously not recorded since prior to the transaction these temporary difference reversals were not previously expected to be taxed in the Fund.

The acquisition of the Cor poration is acc ounted for under Section 1581 of the Canadian Institute Chart ered Accountant ("CICA") Handbook. The fair value of the cons ideration transferred is based on the number of Fund units that would have had to be issued in order to provide, at that time, the same percentage of ownership of the combined entity to the unitholders of the Fund.

The total estimated purchase price has been calculated as follows:

| | |
|---|---|
| Units that would have had to be issued (in 000) | 16,002 |
| Weighted average of the price of Fund units at the announcement date ($ per Unit) | 10.44 |
| Value of Fund units that would have had to be issued | 167,129 |
| Transaction fees | 6,000 |
| Equity portion of convertible debentures | 1,841 |
| Fair value of vested stock options | 497 |
| Total Purchase Price | 175,467 |

The following table reflects the preliminary purchase price allocation, which is subject to a final valuation:

| | Corporation | Corporation's net book value | Pro forma adjustments |
|---|---|---|---|
| | $ | $ | $ |
| Cash and cash equivalents | 88,394 | 88,394 | - |
| Other items of net working capital | (19,344) | (19,344) | - |
| Reserve Accounts | 4,163 | 4,163 | - |
| Property, plant and equipment | 268,927 | 268,927 | - |
| Intangible assets | 69,069 | 43,322 | 25,747 |
| Project development costs | 11,397 | 31,827 | (20,430) |
| Investment in the Fund, an entity subject to significant influence | 57,165 | 49,756 | 7,409 |
| Net future income taxes assets | 1,990 | 3,160 | (1,170) |
| Derivative financial instruments | 903 | 1,886 | (983) |
| Goodwill | - | 8,053 | (8,053) |
| Other long-term assets | 63 | 63 | - |
| Bank loan | (12,900) | (12,900) | - |
| Long-term debt and accrual for acquisition of long-term assets | (214,637) | (216,106) | 1,469 |
| Convertible debentures | (79,222) | (78,659) | (563) |
| Other long-term liabilities | (501) | (501) | - |
| Net assets acquired | 175,467 | 172,041 | 3,426 |

The estimated transaction expenses relating to the combination totalling $ 6,000 have been recognized as cost of the business combination in accordance with Section 1581 of the CICA Handbook.

The total purchase price of $ 175,467 was allocated between share capital for an amount of $ 167,129, transaction costs for an amount of $ 6,000, equity portion of convertible debentures for $ 1,841 and contributed surplus for stock options for an amount of $ 497.

On March 29, 2010, the Corporation recorded an expense related to royalty agreement upon share exchange arrangement of $ 983 due to the deemed cancellation of a contract resulting from the Combination. As per Canadian GAAP, the Fund had to expense the engagement it had with Innergex prior to the Combination. In year 2005, a subsidiary of the Corporation, sold the Rutherford Creek hydroelectric facility to the Fund. Rutherford Creek Power, Limited Partnership, which owns the assets, then agreed, following the expiry or termination of the Rutherford Creek Power Purchase Agreement in 2024, to pay royalties to the subsidiary provided certain revenue thresholds are reached. This expense had no cash impact on the Corporation's results as it was considered to be paid for by the issuance of shares.

# INNERGEX RENEWABLE ENERGY INC.

**Unaudited Pro forma Consolidated Statement of Earnings**
**(in thousands of Canadian dollars except as noted and amounts per share)**

| Nine-month period ended September 30, 2010 | Innergex Renewable Energy Inc. (Note 4 (i)) | Innergex Renewable Energy Inc. (Note 4 (j)) | Pro forma adjustments | | Pro forma Innergex Renewable Energy Inc. |
|---|---|---|---|---|---|
| | $ | $ | $ | | $ |
| **Revenues** | | | | | |
| Operating | 63,091 | 6,373 | - | | 69,464 |
| Management fees | - | 586 | (586) | (a) | - |
| Share of net earnings of an entity subject to significant influence | - | 127 | (127) | (b) | - |
| | 63,091 | 7,086 | (713) | | 69,464 |
| **Expenses** | | | | | |
| Operating expenses | 8,451 | 943 | - | | 9,394 |
| Stock-based compensation | 203 | 389 | (316) | (c) | 276 |
| General and administrative expenses | 4,006 | 3,633 | (509) | (a) | 7,130 |
| | 12,660 | 4,965 | (825) | | 16,800 |
| Earnings from operations | 50,431 | 2,121 | 112 | | 52,664 |
| Prospective projects expenses | 1,202 | 437 | - | | 1,639 |
| Earnings before interest, income taxes, depreciation and amortization and other items | 49,229 | 1,684 | 112 | | 51,025 |
| Interest on long-term debt and convertible debentures | 16,256 | 2,237 | (62) | (d) | 18,431 |
| Realized (gain) loss on derivative financial instruments | (555) | 15,690 | (15,690) | (k) | (555) |
| Realized foreign exchange gain | (26) | - | - | | (26) |
| Other net revenues | (10) | (1,075) | (77) | (a) | (1,162) |
| Earnings (loss) before income taxes, depreciation and amortization and other items | 33,564 | (15,168) | 15,941 | | 34,337 |
| Depreciation and amortization | 22,621 | 2,523 | 347 | (e) | 25,491 |
| Unrealized net loss (gain) on derivative financial instruments | 36,240 | (13,828) | 14,665 | (k) | 37,077 |
| Expenses related to royalty agreement upon share exchange arrangement | 983 | - | - | | 983 |
| Unrealized foreign exchange gain | (6) | - | - | | (6) |
| (Loss) earnings before income taxes | (26,274) | (3,863) | 929 | | (29,208) |
| (Recovery of) provision for income taxes | | | | | |
| Current | (1,286) | 1 | - | | (1,285) |
| Future | (7,061) | 679 | 501 | (f) | (5,881) |
| | (8,347) | 680 | 501 | | (7,166) |
| **Net (loss) earnings** | (17,927) | (4,543) | 428 | | (22,042) |
| Weighted average number of shares outstanding (in 000) | 54,181 | - | 5,352 | (h) | 59,533 |
| Basic net loss per share | (0.33) | - | - | | (0.37) |
| Diluted net loss per share | (0.33) | - | - | | (0.37) |

# INNERGEX RENEWABLE ENERGY INC.

**Unaudited Pro forma Consolidated Statement of Earnings**
**(in thousands of Canadian dollars except as noted and amounts per share)**

| Year-ended December 31, 2009 | Innergex Renewable Energy Inc. (Note 4 (i)) | Innergex Renewable Energy Inc. (Note 4 (j)) | Pro forma adjustments | | Pro forma Innergex Renewable Energy Inc. |
|---|---|---|---|---|---|
| | $ | $ | $ | | $ |
| **Revenues** | | | | | |
| Operating | 58,625 | 19,955 | - | | 78,580 |
| Management fees | - | 2,320 | (2,043) | (a) | 277 |
| Share of net earnings of an entity subject to significant influence | - | 3,366 | (3,366) | (b) | - |
| | 58,625 | 25,641 | (5,409) | | 78,857 |
| **Expenses** | | | | | |
| Operating expenses | 8,241 | 1,742 | - | | 9,983 |
| Stock-based compensation | - | 1,564 | (1,265) | (c) | 299 |
| General and administrative expenses | 3,606 | 5,752 | (2,043) | (a) | 7,986 |
| | | | 671 | (g) | |
| | 11,847 | 9,058 | (2,637) | | 18,268 |
| Earnings from operations | 46,778 | 16,583 | (2,772) | | 60,589 |
| Prospective projects expenses | - | 2,306 | - | | 2,306 |
| Earnings (loss) before interest, income taxes, depreciation and amortization and other items | 46,778 | 14,277 | (2,772) | | 58,283 |
| Interest on long-term debt | 13,187 | 4,404 | 5,361 | (d) | 22,952 |
| Realized loss on derivative financial instrument | - | 1,497 | - | | 1,497 |
| Realized foreign exchange gain | (182) | - | - | | (182) |
| Other (revenues) and expenses | (114) | 3 | - | | (111) |
| Earnings (loss) before income taxes, depreciation and amortization and other items | 33,887 | 8,373 | (8,133) | | 34,127 |
| Depreciation and amortization | 21,426 | 6,424 | 1,240 | (e) | 29,090 |
| Unrealized net gain on derivative financial instruments | (15,798) | (10,018) | 1,792 | (k) | (24,024) |
| Unrealized foreign exchange gain | (320) | - | - | | (320) |
| Impairment of project development costs | - | 421 | - | | 421 |
| Impairment of goodwill | - | 22,458 | - | | 22,458 |
| Earnings (loss) before income taxes and non-controlling interest | 28,579 | (10,912) | (11,165) | | 6,502 |
| Provision for (recovery of) income taxes | | | | | |
| Current | 386 | 5 | (422) | (f) | (31) |
| Future | 1,950 | 4,664 | 140 | (f) | 6,754 |
| | 2,336 | 4,669 | (282) | | 6,723 |
| Net (loss) earnings before non-controlling interest | 26,243 | (15,581) | (10,883) | | (221) |
| Loss allocated to non-controlling interest | - | 253 | - | | 253 |
| **Net earnings (loss)** | 26,243 | (15,328) | (10,883) | | 32 |
| Weighted average number of shares outstanding (in 000) | 42,930 | - | 16,603 | (h) | 59,533 |
| Basic net earnings per share | 0.61 | - | - | | 0.00 |
| Diluted net earnings per share | 0.61 | - | - | | 0.00 |

(a) The intercompany transactions are eliminated upon consolidation of earnings resulting of a decrease of management revenues of $ 586 for the nine-month period ending September 30, 2010, and $ 2,043 for the year ended December 31, 2009, a decrease of general and administrative expenses of $ 509 for the nine-month period ending September 30, 2010 and $ 2,043 for the year ended December 31, 2009 and a decrease of $ 77 of other (revenues) and expenses for the nine-month period ending September 30, 2010.

(b) As a result of the share exchange arrangement, the 16.1 % share of the results of the Fund amounting to earnings of $ 127 and of $ 3,366 for the nine-month period ended September 30, 2010 and for the year ended December 31, 2009 respectively are eliminated since the Fund and the Corporation results are consolidated.

(c) Upon the share exchange arrangement, the fair values of the non-vested stock options of the Corporation were adjusted which resulted in a decrease of the stock based compensation expenses of $ 316 for the nine-month period ended September 30, 2010 and $ 1,265 for the year ended December 31, 2009.

(d) In the course of the share exchange arrangement, some of the credit facilities of the Fund and the Corporation were replaced by a new consolidated long-term facility. The interest rate spread applicable on the new consolidated long-term facility was increased. The Corporation issued convertible unsecured subordinated debentures with a principal amount of $ 80,500 (net of $ 77,280 after issuance fees), bearing interest at an annual rate of 5.75 % (effective rate of 6.09%). The fair value was allocated between debt portion for an amount of $ 79,259 and the equity component of $1,841. The $12,900 bank loan to the Corporation and the $ 15,960 negative value of the derivative financial instruments related to the Ashlu bond forwards, were repaid from the net proceeds of the debentures. The remaining amount of $ 48,690 was used by the Corporation to repay debts of the Fund for an amount of $ 45,123. Interest expense has also been adjusted as a result of applying fair values to the long-term debt assumed and giving effect to the acquisition having occurred as of January 1, 2009. For the nine-month period ended September 30, 2010, the interest on long-term debt is decreased by $ 62 and for the year ended December 31, 2009 it is increased by $ 5,361.

(e) As a result of the share exchange arrangement, depreciation and amortization has been increased by $ 347 for the nine-month period ended September 30, 2010 and by $ 1,240 for the year ended December 31, 2009. These adjustments are the result of applying fair values to the intangible assets acquired and giving effect to the acquisition having occurred on January 1, 2009.

(f) Income taxes have been adjusted for the following items:

   (1) The recognition of Canadian future income taxes expenses as a result of the share exchange arrangement have been adjusted. For the nine-month period ended September 30, 2010 the impact to future income tax was $ 501 and for the year ended December 31, 2009 the impact to future income taxes was $ 140.

   (2) The combined provincial and federal income tax rate assumed in the calculation of future income taxes is varying from 28.25 % to 27 %.

   (3) Current income taxes have been recognized for the variation in taxable income of the Fund and utilization of tax losses. For the nine-month period ended September 30, 2010, the impact of current income tax was nil and for the year ended December 31, 2009, the impact of current income tax was a recovery of $ 422.

(g) Recognition of capital taxes as a result of the share exchange arrangement. For the nine-month period ended September 30, 2010, the impact is already reflected in the results of Innergex Renewable Energy and does not need any adjustment. For the year ended December 31, 2009 the impact was $ 671.

(h) The weighted average number of shares is adjusted to reflect the effect of the Share Exchange Arrangement where each unit of the Fund was converted into 1.46 shares of the Corporation. For the nine-month period ended September 30, 2010, the additional adjustment to the weighted average number of shares as if the Share Exchange Arrangement as taken effect on January 1, 2009, is 5,352 thousands shares deemed issued. For the year ended December 31, 2009, the additional adjustment to the weighted average number of shares as if the Share Exchange Arrangement as taken effect on January 1, 2009 is 16,603 thousands shares deemed issued. Both adjustements reflects that the Corporation has 59,533 thousands shares issued.

(i) Revenues for the nine-month period of 2010 include a complete nine-month period for the Fund's revenues and, since March 30, 2010, the Corporation's revenues from the assets acquired on that date.

Revenues for the year-ended December 31, 2009 are for the Fund before the combination.

(j) Revenues for the nine-month period of 2010 include the Corporation's revenues from January 1, 2010 to March 29, 2010 being the period before the share exchange arrangement.

Revenues for the year-ended December 31, 2009 are for the Corporation before the combination.

(k) The derivative financial instrument of $ 15,690 related to Ashlu has been repaid with the proceeds of the debenture. (See Note 4 (d)). Consequently, for the nine-month period ended September 30, 2010, an unrealized net loss on derivative instrument of $ 14,665 related to Ashlu has been reversed. For the year ended December 31, 2009, an unrealized net loss on derivative instrument of $ 1,792 related to Ashlu has also been reversed.

(l) Potential cost synergies have not been included in the unaudited pro forma consolidated statement of earnings. Consistent with rules for preparation of a pro forma as set out in National Instrument 51-102 Continuous Disclosure Obligations, for synergies to be included, they must be substantiated with firm commitments and be objectively determinable.

## CERTIFICATE OF THE CORPORATION

Dated: February 25, 2011

This short form prospectus, together with the documents incorporated herein by reference, constitutes, full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

**INNERGEX RENEWABLE ENERGY INC.**

By: *(Signed)* Michel Letellier
President and Chief Executive Officer

By: *(Signed)* Jean Perron
Vice President and Chief Financial Officer

On behalf of the Board of Directors

By: *(Signed)* Jean La Couture
Chairman

By: *(Signed)* Daniel Lafrance
Director

**CERTIFICATE OF THE UNDERWRITERS**

Dated: February 25, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada

| BMO NESBITT BURNS INC. | NATIONAL BANK FINANCIAL INC. |
|---|---|
| By: *(Signed)* Pierre-Olivier Perras | By: *(Signed)* Louis Gendron |

**TD SECURITIES INC.**

By: *(Signed)* Louis G. Véronneau

**RBC DOMINION SECURITIES INC.**

By: *(Signed)* Alexandre Bergeron

| CIBC WORLD MARKETS INC. | SCOTIA CAPITAL INC. |
|---|---|
| By: *(Signed)* Paul St-Michel | By: *(Signed)* Éric Michaud |

**DESJARDINS SECURITIES INC.**

By: *(Signed)* Mathieu Cardinal

INNERGEX

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