

**INNERGEX**

Renewable Energy.  
Sustainable Development.

# QUARTERLY REPORT 2013

FOR THE PERIOD ENDED JUNE 30, 2013

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

INNERGEX

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is a discussion of the operating results, cash flows, and financial position of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the three- and six-month periods ended June 30, 2013, and reflects all material events up to August 8, 2013, the date on which this MD&A was approved by the Corporation's Board of Directors.

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

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

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

## FORWARD-LOOKING INFORMATION

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forward-Looking Information represents, as of the date of this MD&A, the estimates, forecasts, projections, expectations or opinions of the Corporation relating to future events or results. Forward-Looking Information involve known and unknown risks, uncertainties and other important factors which may cause the actual results or performance to be materially different from those expressed, implied or presented by the Forward-Looking Information. The material risks and uncertainties that may cause the actual results and developments to be materially different from the current expressed expectations are referred to in this MD&A under the "Risks and Uncertainties" heading and include the ability of the Corporation to execute its strategy; the ability to access sufficient capital resources; liquidity risks related to derivative financial instruments; changes in hydrology, wind regime and solar irradiation; delays and cost overruns in the construction and design of projects; health, safety and environmental risks; uncertainty relating to development of new facilities; obtainment of permits; variability of project performance and related penalties; equipment failure; interest rate fluctuation and refinancing risk; financial leverage and restrictive covenants governing current and future indebtedness; declaration of dividends at the discretion of the board; securing new power purchase agreements; the ability to retain senior management and key employees; litigation; performance of major counterparties; relationship with stakeholders; equipment supply; changes to regulatory and political factors; the ability to secure appropriate land; reliance on power purchase agreements; reliance upon transmission systems; water and land rental expense; assessment of water, wind and sun resources and associated electricity production; dam safety; natural disasters and force majeure; foreign exchange fluctuations; sufficiency of insurance coverage; credit rating may not reflect actual performance of the Corporation; potential undisclosed liabilities associated with acquisitions; integration of the facilities and projects acquired and to be acquired; failure to realize the anticipated benefits of acquisitions; fluctuation of the revenues from the Miller Creek facility based on the electricity spot price; the inability to execute a definitive agreement and close the acquisition of the Hydromega hydroelectric facilities and development projects; shared transmission and interconnection infrastructure; and the introduction of solar photovoltaic power facility operation. The Forward-Looking Information is based on certain key expectations and assumptions made by the Corporation, including expectations and assumptions concerning availability of capital resources, absence of exercise of any termination right, economic and financial conditions, the success obtained in developing new facilities and the performance of operating facilities. Although the Corporation believes that the expectations and assumptions on which such Forward-Looking Information is based are reasonable, undue reliance should not be placed on the Forward-Looking Information since no assurance can be given that they will prove to be correct. The reader of this MD&A is cautioned not to rely unduly on this Forward-Looking Information. All Forward-Looking Information, expressed verbally or in writing by the Corporation or by a person acting on its behalf, is expressly qualified by this cautionary statement. The Forward-Looking Information contained herein is made as at the date of this MD&A and the Corporation does not undertake any obligation to update or revise any Forward-Looking Information, whether as a result of events or circumstances occurring after the date hereof, unless so required by legislation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## OVERVIEW

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

## Portfolio of Assets

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

- 29 facilities that are in commercial operation (the "Operating Facilities"). Commissioned between November 1994 and November 2012, the facilities have a weighted average age of approximately 7.2 years. They sell the generated power under long-term Power Purchase Agreements ("PPA") that have a weighted average remaining life of 17.9 years;
- Eight projects scheduled to begin commercial operation between 2013 and 2017 (the "Development Projects"). Construction is ongoing at three of the projects and is expected to begin on four projects in 2013; and
- Numerous projects that have secured certain land rights, for which an investigative permit application has been filed or for which a proposal has either been submitted under a Request for Proposal ("RFP") or could be submitted under a Standing Offer Program ("SOP") (collectively the "Prospective Projects"). These projects are at various stages of development.

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



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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## BUSINESS STRATEGY

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

## Annual Dividend Policy

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

## Key Performance Indicators

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

## Seasonality

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

Electricity	LTA <sup>1</sup> (GWh and %) – Net Interest <sup>2</sup>								
	Q1		Q2		Q3		Q4		Total
HYDRO	249.4	14%	630.0	36%	506.7	29%	359.7	21%	1,745.8
WIND	213.6	32%	142.8	21%	112.8	17%	207.3	31%	676.5
SOLAR <sup>3</sup>	7.4	19%	12.6	33%	12.8	33%	5.9	15%	38.7
Total	470.4	19%	785.4	32%	632.3	26%	572.9	23%	2,461.0

1. Long-term average for 2013 for the facilities in operation at June 30, 2013.

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

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

Electricity	Q1		Q2		Q3		Q4		Total
Magpie (hydro)	17.0	9%	54.3	29%	61.6	33%	52.2	28%	185.0

1. The acquisition of the Magpie hydroelectric facility was concluded on July 25, 2013. Please refer to the "Subsequent Events" section for more information.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## QUARTERLY UPDATE

During the second quarter ended June 30, 2013, electricity production was slightly better than the long-term average. Revenues increased 16% to \$63.2 million and Adjusted EBITDA increased 15% to \$51.3 million, compared with the second quarter of 2012, due mainly to the addition of the Stardale solar farm in May 2012, the addition of capacity at the Gros-Morne wind farm in November 2012 and the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012. After adjusting for a realized net loss and an unrealized net gain on derivative financial instruments, net income for the quarter would have been \$13.2 million, compared with \$8.2 million the previous year, for the reasons mentioned above.

## Highlights

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Power generated (MWh)	792,542	694,662	1,178,711	1,013,996
Operating revenues	63,167	54,360	98,855	82,429
Adjusted EBITDA	51,260	44,604	76,663	62,893
Net earnings (loss)	31,039	(11,865)	30,861	(4,060)
Cash flows from operating activities	35,812	22,595	47,986	32,019
Dividends declared on preferred shares	1,782	1,063	3,828	2,125
Dividends declared on common shares	13,695	11,786	27,320	23,572
Dividends declared on common shares (\$ per share)	0.1450	0.1450	0.2900	0.2900

For the three- and six-month periods ended June 30, 2013, the increases in the power generated and operating revenues and in Adjusted EBITDA, which is detailed in the financial results table, are attributable mainly to the addition of the Stardale solar farm in May 2012, the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012 and the addition of capacity at the Gros-Morne wind farm in November 2012.

The recognition of net earnings for the three- and six-month periods ended June 30, 2013, compared with a net loss for the same periods in 2012, is attributable to the reasons mentioned above and to an unrealized net gain on derivative financial instruments, compared with an unrealized net loss on derivative financial instruments in the same periods last year. The following table outlines the impact on net earnings (loss) of the unrealized net gain (loss) on derivative financial instruments as well as a realized net loss on derivative financial instruments incurred in the second quarter of 2013 following the settlement of the Northwest Stave River bond forward contracts upon the closing of the long-term financing for this project:

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Net earnings (loss)	31,039	(11,865)	30,861	(4,060)
(Subtract) Add: Unrealized net (gain) loss on derivative financial instruments	(27,318)	27,105	(31,156)	7,006
Add: Realized net loss on derivative financial instruments	3,259	—	3,259	—
Add (Subtract): Deferred provision for (recovery of) income taxes related to a realized net loss and an unrealized net (gain) loss on derivative financial instruments	6,255	(7,047)	7,253	(1,822)
	13,235	8,193	10,217	1,124

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Excluding the realized net loss and the unrealized net gain on derivative financial instruments and the related net provision for income taxes, the net earnings for the three-month period ended June 30, 2013, would have been \$13.2 million (compared with net earnings of \$8.2 million in 2012), while net earnings for the six-month period ended June 30, 2013, would have been \$10.2 million (compared with net earnings of \$1.1 million in 2012). This increase is due mainly to the increase in Adjusted EBITDA during the second quarter and the six-month period.

## **Innergex Partner Allocated 150 MW for a Wind Project**

On May 10, 2013, the Mi'gmaq communities of Quebec, with whom the Corporation has a partnership agreement, were allocated 150 MW by the Quebec government for a wind energy project in the Gaspé Peninsula. Please refer to Mesgi'g Ugju's'h ("MU") under "Development Projects" for more information.

## **Procurement of 800 MW in Wind Energy by the Quebec Government**

Also on May 10, 2013, the Quebec government announced the procurement of 800 MW in new wind energy. In addition to the 150 MW awarded to the Mi'gmaq communities, this procurement will also include requests for proposals for 450 MW targeting projects initiated by local communities and cooperatives in partnership with private developers. Innergex has several wind projects in Quebec that it intends to submit under these requests for proposals. The Corporation is awaiting the details of the Quebec government's announcement before proceeding.

## **Closing of Northwest Stave River Hydroelectric Project Financing**

On May 23, 2013, the Corporation closed a \$72.0 million non-recourse construction and term project financing for the Northwest Stave River hydroelectric project currently under construction in British Columbia. The \$72.0 million construction loan will carry a fixed interest rate of 5.3%; upon the start of the project's commercial operation, it will convert into a 40-year term loan and the principal will begin to be amortized over a 35-year period, starting in the sixth year. The financing has been arranged by Industrial Alliance Insurance and Financial Services Inc. as agent and lead lender, and includes Stonebridge Infrastructure Debt Fund I L.P. as lender.

## **Replacement of the Large FIT Application Process with a Competitive Procurement Process**

On June 12, 2013, the Ontario government announced that it would no longer procure large renewable energy capacity under the FIT Program for large FIT projects. Instead, it will seek to replace it with a competitive process in which it plans to engage with municipalities and other stakeholders, such as First Nations, in order to take into account local needs and considerations when awarding contracts for future renewable energy projects. As a result, the Ontario Power Authority will discontinue the previously submitted Large FIT project applications for which no contract has been awarded. The Corporation has a number of wind and solar Prospective Projects that it continues to advance in preparation for submissions under this future competitive bid process.

## **Extension of the Revolving Term Credit Facility to 2018**

On June 17, 2013, the Corporation extended its \$425 million revolving term credit facility with a new five-year term ending in 2018. The revolving term credit facility is used partly to finance 13 of the Company's otherwise unencumbered Operating Facilities and partly to provide a flexible source of capital to fund the Company's growth. The terms and conditions remain unchanged while usage flexibility is enhanced. The banking syndicate for the facility also remains unchanged and includes Toronto-Dominion Bank as administrative agent and lender, Bank of Montreal as syndication agent and lender and Canadian Imperial Bank of Commerce, Caisse centrale Desjardins, National Bank of Canada, Bank of Nova Scotia and Laurentian Bank of Canada as additional lenders.

## **Carleton Wind Farm Refinancing**

On June 26, 2013, the Corporation closed a \$52.8 million non-recourse term loan to refinance its ownership portion of the Carleton wind farm, located in Quebec, Canada. The term loan carries a fixed interest rate of 5.6% (through the use of swaps) and the principal will be amortized over a term of approximately 14 years, slightly less than the remaining duration of the wind farm's first power purchase agreement. Additional proceeds from the refinancing of approximately \$11.7 million were used essentially to reduce drawdowns on the Corporation's revolving term credit facility. The higher refinancing amount results from the wind farm performing better than initially expected by the lenders. The refinancing as well as the swap agreement to fix the interest rate have been provided by the same two lenders, namely Sumitomo Mitsui Banking Corporation and Bank of Tokyo Mitsubishi UFJ Canada.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Recent Increase in Long-Term Interest Rates and Related Risk Exposure

The Corporation faces interest rate and refinancing risk by virtue of the capital-intensive nature of its business activities. The recent increase in long-term interest rates has little impact on the Corporation's current operating performance, since the project-level debts and most of its revolving term credit facility have fixed interest rates and therefore fixed interest expenses. Furthermore, the Corporation's three projects under construction (Kwoiek Creek, Northwest Stave River and Viger-Denonville) already have project-level financing in place with fixed interest rates. As at June 30, 2013, 96% of the Corporation's outstanding debt was fixed or hedged against interest rate fluctuations.

However, the Corporation currently has five other Development Projects for which project-level financing has not yet been secured. As it has done in the past, the Corporation will seek to lock-in interest rates for their financing through the use of derivative financial instruments and enter into negotiations with potential lenders for project-level financing. Until then, the rate of return on these projects could be adversely affected by higher interest rates. At this time, the Corporation estimates the impact of the recent increase in interest rates on the Development Projects' expected rates of return to be modest.

Projects that do not yet have a power purchase agreement will reflect higher interest rate assumptions in their modeling; in such cases, higher interest rates are associated with the possibility of higher selling prices for electricity.

## DEVELOPMENT PROJECTS

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

### PROJECTS UNDER CONSTRUCTION

Project name and location	Ownership %	Gross installed capacity (MW)	Expected COD <sup>1</sup>	Gross estimated LTA (GWh)	PPA term (years)	Total project costs		Expected year-one	
						Estimated <sup>2</sup> (\$M)	As at June 30, 2013 (\$M)	Revenues <sup>2</sup> (\$M)	Adjusted EBITDA <sup>2</sup> (\$M)
<i>HYDRO (British Columbia)</i>									
Kwoiek Creek	50.0	49.9	Q4 2013	215.0	40	153.2	136.3	18.2	14.8
Northwest Stave River	100.0	17.5	Q4 2013	61.9	40	91.4	66.3	7.4	5.9
<i>WIND (Québec)</i>									
Viger-Denonville	50.0	24.6	Q4 2013	67.6	20	36.6 <sup>3</sup>	17.3 <sup>3</sup>	5.2 <sup>3</sup>	4.2 <sup>3</sup>

1. Commercial operation date.

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

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

## Hydro Projects

### Kwoiek Creek

The construction of this hydroelectric facility began in the last quarter of 2011. At the date of this MD&A, installation of the turbines and generators, and installation of electrical equipment in the plant substation have been completed; construction of the transmission line was nearly complete; and construction of the intake, installation of the penstock and cabling of the powerhouse were all ongoing. The construction of this facility is progressing as scheduled and budgeted.

### Northwest Stave River

The construction of this hydroelectric facility began in the last quarter of 2011. At the date of this MD&A, the powerhouse, penstock and transmission line are nearing completion and the intake civil and hydromechanical installations are well on the way to being completed by the fall. The powerhouse superstructure is complete and the turbine and generating equipment is being installed. The construction of this facility is progressing as scheduled and budgeted.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Wind Projects

### Viger-Denonville

The construction of this wind farm began in the first quarter of 2013. Current activities include road construction, pouring concrete for the turbine foundations, preparation of access roads for the delivery of the turbines, excavation for the collector system and installation of the substation equipment. On August 7, 2013, Parc éolien communautaire Viger-Denonville, s.e.c. ("Viger-Denonville, L.P.") closed a long-term non-recourse project financing of \$61.7 million for this project. Please refer to the "Subsequent Events" section for more information. The construction of this facility is progressing as scheduled and budgeted.

## PROJECTS IN PERMIT PHASE

Project name and location	Ownership %	Gross installed capacity (MW)	Expected COD	Gross estimated LTA (GWh)	PPA term (years)	Total project costs	
						Estimated <sup>1</sup> (\$M)	As at June 30, 2013 (\$M)
<i>HYDRO (British Columbia)</i>							
Boulder Creek	66.7	25.3	2015	92.5	40	116.9	4.3
Tretheway Creek	100.0	23.2	2015	81.9	40	108.5	16.0
North Creek <sup>2</sup>	66.7	16.0	2016	59.7	40	72.0	0.2
Upper Lillooet	66.7	81.4	2016	334.0	40	317.6	13.7
Big Silver Creek	100.0	40.6	2016	139.8	40	191.8	28.4
<i>WIND (Québec)</i>							
Mesgi'g Ugnu's'n ("MU")	50.0	150.0	2016/17 <sup>3</sup>	TBC <sup>3</sup>	TBC <sup>3</sup>	TBC <sup>3</sup>	0.1

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

2. On March 14, 2013, the Company announced changes to the configuration of the Boulder Creek, North Creek and Upper Lillooet hydro projects, which included cancellation of the North Creek project, which is subject to the still-pending consent of BC Hydro. The Corporation is considering whether to continue the development of North Creek as a Prospective Project.

3. To be confirmed.

## Hydro Projects

### Boulder Creek, North Creek and Upper Lillooet

The Boulder Creek and Upper Lillooet projects have both received their Crown land tenure and water licence from the provincial government. The Corporation expects that toward the end of the summer it will have received all the necessary permits for these projects, at which time it will be able to begin construction activities. In addition, discussions are ongoing with BC Hydro to obtain its consent to amend the PPAs to increase the installed capacity of the Boulder Creek and Upper Lillooet projects and to cancel the North Creek project. The Corporation expects to start construction on the Boulder Creek and Upper Lillooet projects in 2013.

### Tretheway Creek

The project has received its land tenure and its water licence from the provincial government. The remaining permits are in the process of being obtained and present no technical obstacles. The Corporation continues to optimize the design of the project and to discuss pricing and cost-saving options with civil works contractors, turbine and generator suppliers and transmission line contractors. The Corporation has requested BC Hydro's consent to increase the installed capacity. The Corporation plans to start construction on this project in 2013.

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

## Big Silver Creek

The project has received its land tenure and its water licence from the provincial government. The remaining permits are in the process of being obtained and present no technical obstacles. The Corporation continues to optimize the design of the project and to discuss pricing and cost-saving options with civil works contractors, turbine and generator suppliers and transmission line contractors. The Corporation plans to start construction on this project in 2013.

## Wind Projects

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

On May 10, 2013, as part of an announcement for the procurement of 800 MW of new wind energy, the Quebec government allocated 150 MW for a new wind energy project to the Mi'gmaq communities of Quebec, with whom Innergex has a partnership. The partners will share in the distributions from the project in varying proportions, based in part on their initial equity investment. Initially, the Corporation expects to fund a majority of the equity investment required for this project; as a result, it expects to receive approximately 75% of the project's cash flows during the first year. However, during the first 15 years, the Corporation's partner will have the right to gradually increase its equity investment in the project up to 65% (by purchasing portions of the Corporation's equity at a price based on the present value of future cash flows using a predetermined rate of return) and therefore receive a higher proportion of cash flows. In any event, starting in the 16th year, the Corporation will receive no less than 35% and no more than 40% of the project's annual cash flows for the remaining life of the project. At the date of this MD&A, the partners were in the process of negotiating the terms of a long-term power purchase agreement with Hydro-Québec Distribution. They expect to sign this PPA shortly. The environmental assessment for the project has been completed and submitted to the Ministry of Sustainable Development, Environment, Wildlife and Parks. The partners expect to start construction on this project in 2015. The timing for the beginning of commercial operation is expected to be in 2016 or 2017.

## PROSPECTIVE PROJECTS

All the Prospective Projects, with a combined potential net installed capacity of 2,900 MW (gross 3,125 MW), are in the preliminary development stage. Some Prospective Projects are targeted toward specific future RFPs or SOPs, while others will be available for future RFPs yet to be announced. There is no certainty that any Prospective Project will be realized.

Additional information about the Corporation's facilities and projects can be found in the Corporation's Annual Information Form for the year ended December 31, 2012, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## OPERATING RESULTS

Production of electricity in the second quarter was 103% of the long-term average due to better-than-average water flows and solar irradiation, while wind regimes were generally slightly lower than expected. For the first half of the year, production of electricity reached 96% of the long-term average, reflecting the impact during the first quarter of low water flows in British Columbia and the United States and below-average wind conditions and the effects of unusually large snowfalls and snow removal activities at the Stardale solar farm.

Revenues and Adjusted EBITDA increased 16% and 15% respectively in the second quarter and 20% and 22% respectively in the first half of 2013. These increases are due to the commissioning of the Stardale solar farm in May 2012, the addition of capacity at the Gros-Morne wind farm in November 2012 and the acquisition of the Brown Lake and Miller Creek hydroelectric facilities in October 2012.

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

### Electricity Production

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

For the three-month periods ended June 30	2013				2012			
	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
<i>HYDRO</i>								
Quebec	120,626	117,910	102%	83.16	126,672	117,910	107%	73.94
Ontario	23,386	20,805	112%	65.73	15,154	19,300	79%	65.34
British Columbia	475,580	455,841	104%	71.10	409,214	409,074	100%	74.41
United States	19,402	16,956	114%	63.45	18,945	16,956	112%	59.38
Subtotal	638,994	611,512	104%	72.94	569,985	563,240	101%	73.57
<i>WIND</i>								
Quebec	140,551	142,805	98%	78.96	110,873	115,929	96%	81.48
<i>SOLAR</i>								
Ontario	12,997	12,644	103%	420.00	13,804	12,797	108%	245.90
Total	792,542	766,961	103%	79.70	694,662	691,966	100%	78.25

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

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

During the second quarter ended June 30, 2013, the Corporation's facilities produced 792.5 GWh of electricity, representing 103% of the LTA production. Production levels are attributable to above-average water flows in all geographic markets, especially Ontario and the United States, while wind conditions were slightly lower than anticipated at all of the wind farms except Gros-Morne, which had above-average production. The Stardale solar farm produced slightly more than its LTA.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

For the six-month periods ended June 30	2013				2012			
	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh)	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
<i>HYDRO</i>								
Quebec	191,312	181,227	106%	92.82	193,876	181,227	107%	84.15
Ontario	48,927	45,099	108%	68.03	39,507	43,721	90%	68.41
British Columbia	551,782	600,838	92%	73.63	484,385	535,337	90%	77.21
United States	23,531	24,883	95%	62.62	26,575	24,883	107%	58.35
Subtotal	815,552	852,047	96%	77.48	744,343	785,168	95%	77.88
<i>WIND</i>								
Quebec	343,227	356,410	96%	79.53	255,849	288,660	89%	82.34
<i>SOLAR</i>								
Ontario	19,932	20,033	99%	420.00	13,804	12,797	108%	245.90
Total	1,178,711	1,228,490	96%	83.87	1,013,996	1,086,625	93%	81.29

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

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

During the six-month period ended June 30, 2013, the Corporation's facilities produced 1,178.7 GWh of electricity, or 96% of the LTA of 1,228.5 GWh. Water flows were below average in British Columbia and in the United States and better than average in Quebec and Ontario during the first quarter and were above average in all geographic markets, especially Ontario and the United States, during the second quarter. Wind conditions were slightly lower than anticipated at all the wind farms in the first half of the year except at Carleton, which had above-average production. The Stardale solar farm production was very close to its LTA, as better-than-average production in the second quarter compensated for lower-than-expected production in January due to unusually large snowfalls followed by extreme cold weather, which slowed the removal of snow from the solar panels.

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Financial Results

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Operating revenues	63,167	54,360	98,855	82,429
Operating expenses	8,259	6,470	14,717	12,134
General and administrative expenses	2,924	2,639	5,926	5,672
Prospective project expenses	724	647	1,549	1,730
Adjusted EBITDA	51,260	44,604	76,663	62,893
Finance costs	18,826	18,194	31,778	32,130
Other net expenses (revenues)	2,958	(822)	585	(1,421)
Depreciation and amortization	17,452	15,623	34,913	30,180
Share of (earnings) loss of joint ventures <sup>1</sup>	(3,832)	108	(3,706)	(594)
Unrealized net (gain) loss on derivative financial instruments	(27,318)	27,105	(31,156)	7,006
Provision for (recovery of) income taxes	12,135	(3,739)	13,388	(348)
Net earnings (loss)	31,039	(11,865)	30,861	(4,060)
Net earnings (loss) attributable to:				
Owners of the parent	28,302	(9,055)	31,099	(132)
Non-controlling interests	2,737	(2,810)	(238)	(3,928)
	31,039	(11,865)	30,861	(4,060)
Basic net earnings (loss) per share	0.28	(0.12)	0.29	(0.03)

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

## Revenues

For the three-month period ended June 30, 2013, the Corporation recorded operating revenues of \$63.2 million, compared with \$54.4 million in 2012, corresponding to an increase of 16%. For the first half of 2013, the Corporation recorded revenues of \$98.9 million, compared with \$82.4 million in 2012, corresponding to an increase of 20%. For both the second quarter and the first half of the year, the increase is due mainly to additional revenues from the Stardale solar farm (since May 2012), additional capacity at the Gros-Morne wind farm (since November 2012) and the acquisition of the Brown Lake and Miller Creek hydroelectric facilities (since October 2012).

## Expenses

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

For the three- and six-month periods ended June 30, 2013, the Corporation recorded operating expenses of \$8.3 million and \$14.7 million respectively (\$6.5 million and \$12.1 million respectively in 2012). This increase of 28% in the second quarter and 21% for the first half of 2013 is due mainly to the Corporation operating a greater number of facilities in 2013 than in 2012, following the addition of the Stardale solar farm, additional capacity at the Gros-Morne wind farm and the acquisition of the Brown Lake and Miller Creek hydroelectric facilities. Greater maintenance and repair activities at several of the Corporation's hydroelectric facilities and wind farms during the second quarter also explain this increase in operating expenses.

General and administrative expenses totalled \$2.9 million and \$5.9 million respectively for the three- and six-month periods ended June 30, 2013 (\$2.6 million and \$5.7 million respectively in 2012). This increase of 11% in the second quarter and 4% in the first half of the year reflects the Corporation's larger size.

Prospective project expenses include the costs incurred for the development of Prospective Projects. Prospective project expenses totalled \$0.7 million and \$1.5 million respectively for the three- and six-month periods ended June 30, 2013 (\$0.6 million and \$1.7 million respectively in 2012).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Finance Costs

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

For the three- and six-month periods ended June 30, 2013, finance costs totalled \$18.8 million and \$31.8 million respectively (\$18.2 million and \$32.1 million respectively in 2012). Finance costs have remained relatively stable due mainly to stable levels of indebtedness, except for the addition of financing for the Kwoiek Creek and Northwest Stave River projects, for which interest expenses are capitalized until the projects reach commercial operation, and for the higher level of refinancing for the Carleton wind farm, which was recorded at the end of the second quarter. Also, during the six-month period ended June 30, 2013, the higher interest expense on the Stardale financing was offset by a lower interest expense (or negative inflation compensation) on the real-return bonds due to deflation.

As at June 30, 2013, 96% of the Corporation's outstanding debt, including convertible debentures, was fixed or hedged against interest rate movements (85% as at June 30, 2012). The difference is due to the Stardale interest rate swaps, which became effective at the end of the third quarter of 2012.

The effective all-in interest rate on the Corporation's debt and convertible debentures was 5.61% as at June 30, 2013 (5.65% as at June 30, 2012). The decrease stems from lower inflation compensation interest rates for the real return bonds due to the lower inflation rate in the first quarter of 2013, the addition of the Kwoiek Creek loan, which bears a low fixed interest rate of 5.075%, and the addition of the Northwest Stave River loan, which bears a low fixed interest rate of 5.3%. These elements were partly offset by a higher all-in interest rate of 5.79% on the Stardale loan, which has been hedged by an interest rate swap contract since September 2012, and by the refinancing of the Carleton loan at a higher all-in interest rate of 5.6% (compared with 4.84% previously), which has been hedged by an interest-rate swap contract since November 2008. Please refer to the "Derivative Financial Instruments and Risk Management" section for more information.

## Other Net (Revenues) Expenses

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

For the three-month period ended June 30, 2013, other net expenses totalled \$3.0 million (other net revenues of \$0.8 million in 2012), due mainly to a realized net loss on derivative financial instruments of \$3.3 million related to the settlement of the Northwest Stave River bond forward contracts concurrently with the closing of the long-term financing for this project; this loss results from the decrease in benchmark interest rates between the date the bond forwards were entered into (September 2011) and the settlement date (June 2013) and is compensated by the low fixed interest rate on the Northwest Stave River loan for its 40-year term. This loss was partly offset by interest income of \$0.7 million on the reserve accounts and the \$25.0 million deposit for the potential acquisition of any Hydromega asset.

For the six-month period ended June 30, 2013, other net expenses totalled \$0.6 million (other net revenues of \$1.4 million in 2012), due mainly to the net realized loss on derivative financial instruments of \$3.3 million, offset by a \$2.0 million settlement of claims received in relation with an acquisition during the first quarter and by interest income of \$1.3 million on the reserve accounts and the \$25.0 million deposit for the potential acquisition of any Hydromega asset.

## Depreciation and Amortization

For the three- and six-month periods ended June 30, 2013, depreciation and amortization expenses totalled \$17.5 million (\$15.6 million in 2012). This increase is attributable mainly to the larger asset base resulting from the addition of the Stardale solar farm, additional turbines installed at the Gros-Morne wind farm and the acquisition of the Brown Lake and Miller Creek hydroelectric facilities.

## Derivative Financial Instruments

The Corporation uses derivative financial instruments to manage its exposure to the risk of rising interest rates on its debt financing ("Derivatives"), thereby protecting the economic value of its projects. Innergex also has derivative financial instruments embedded in some of its PPAs. The Corporation does not use hedge accounting for its derivative financial instruments nor does it own or issue financial instruments for speculative purposes.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Since several interest rate swaps are entered into for a term equal in length to the underlying debt amortization schedule, which can reach 30 years, a Derivative's fair market value can be very sensitive to quarter-to-quarter variations in long-term interest rates.

For the three- and six-month periods ended June 30, 2013, the Corporation recorded an unrealized net gain on derivative financial instruments of \$27.3 million and \$31.2 million respectively, due mainly to the increase in benchmark interest rates since the end of 2012. For the corresponding periods of 2012, Innergex recorded an unrealized net loss on derivative financial instruments of \$27.1 million and \$7.0 million respectively, due to the decrease in benchmark interest rates since December 31, 2011.

During the second quarter of 2013, the Corporation settled the Northwest Stave River bond forwards simultaneously with the closing of the fixed-rate long-term financing for this project, which has resulted in a realized net loss on derivative financial instruments of \$3.3 million; this loss results from the decrease in benchmark interest rates between the date the bond forwards were entered into (September 2011) and the settlement date (June 2013) and is compensated by the low fixed interest rate on the Northwest Stave River loan for its 40-year term.

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

As at the date of this MD&A, the Corporation has no other derivative financial instruments outstanding which it expects to settle simultaneously with the closing of a long-term project financing, and which would result in a realized gain or loss on derivative financial instruments. However, in the coming months the Corporation expects to enter into derivative financial instruments to fix the interest rate on future project-level debt for the Upper Lillooet, Boulder Creek, Tretheway Creek and Big Silver Creek projects; upon the closing of each fixed-rate or interest swapped long-term financing, the Corporation will settle the corresponding derivative financial instruments, which will result in a realized gain or loss on derivative financial instruments. Furthermore, any realized gain or loss on the subsequent settlement of outstanding foreign exchange derivative financial instruments related to Viger-Denonville, L.P. will be recognized at the joint venture level.

## **Provision for Income Taxes**

For the three- and six-month periods ended June 30, 2013, the Corporation recorded a current provision for income taxes of \$0.9 million and \$1.7 million respectively (\$0.5 million and \$1.0 million respectively in 2012) and a deferred provision for income taxes of \$11.3 million and \$11.7 million respectively (income tax recoveries of \$4.2 million and \$1.3 million, respectively in 2012). The difference in the deferred provisions for income taxes is due primarily to the unrealized net gain on derivative financial instruments recognized in the second quarter of 2013, compared with an unrealized net loss on derivative financial instruments recognized in second quarter of 2012.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Net Earnings (Loss)

For the quarter ended June 30, 2013, the Corporation recorded net earnings of \$31.0 million (basic and diluted net earnings of \$0.28 per share). For the corresponding period of 2012, Innergex recorded a net loss of \$11.9 million (basic and diluted net loss of \$0.12 per share). The following two tables outline the main items that contributed to the net earnings for the second quarter of 2013, compared with a net loss for the corresponding period in 2012:

Main items – Positive impact	Variation	Explanation
Adjusted EBITDA	6,656	Due mainly to the addition of Stardale, additional capacity at Gros-Morne and the Brown Lake and Miller Creek acquisitions.
Unrealized net gain on derivative financial instruments	54,423	Due mainly to an increase in benchmark interest rates during the second quarter of 2013 and a decrease in benchmark interest rates during the second quarter of 2012.
Main items – Negative impact	Variation	Explanation
Depreciation and amortization	1,829	Due mainly to the larger asset base resulting from the addition of Stardale, additional turbines at Gros-Morne and the Brown Lake and Miller Creek acquisitions.
Other net expenses (revenues)	3,780	Due mainly to the \$3.3 million realized net loss on derivative financial instruments in 2013 and a \$0.8 million compensation for loss of revenues received in 2012.
Provision for income taxes	15,874	Due to a positive variation in net income. This variation results mainly from an unrealized net gain on derivative financial instruments recognized in 2013, compared with an unrealized net loss in 2012.

For the six-month period ended June 30, 2013, the Corporation recorded net earnings of \$30.9 million (basic and diluted net earnings of \$0.29 per share). For the corresponding period of 2012, Innergex recorded a net loss of \$4.1 million (basic and diluted net loss of \$0.03 per share). The following two tables outline the main items that contributed to the net earnings for the first half of 2013, compared with a net loss for the corresponding period in 2012:

Main items – Positive impact	Variation	Explanation
Adjusted EBITDA	13,770	Due mainly to the addition of Stardale, additional capacity at Gros-Morne and the Brown Lake and Miller Creek acquisitions.
Unrealized net gain on derivative financial instruments	38,162	Due mainly to an increase in benchmark interest rates during the first half of 2013 and a decrease in benchmark interest rates during the first half of 2012.
Main items – Negative impact	Variation	Explanation
Other net expenses	2,006	Due mainly to the \$3.3 million realized net loss on derivative financial instruments in 2013, partly offset by a \$2.0 settlement of claims received in 2013.
Depreciation and amortization	4,733	Due mainly to the larger asset base resulting from the addition of Stardale, additional turbines at Gros-Morne and the Brown Lake and Miller Creek acquisitions.
Provision for income taxes	13,736	Due to a positive variation in net income; this variation results mainly from an unrealized net gain on derivative financial instruments recognized in 2013, compared with an unrealized net loss in 2012.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The basic and diluted per-share figures for the three-month period ended June 30, 2013, are based on a weighted average number of 94,369,675 and 94,432,665 common shares outstanding respectively. The basic and diluted per-share figures for the six-month period ended June 30, 2013, are based on a weighted average number of 94,142,792 and 94,219,338 common shares outstanding respectively. For the three- and six-month periods ended June 30, 2013, 2,073,420 and 1,263,000 stock options respectively were non-dilutive during these periods, as the average market price of the Corporation's common share was below the strike price. Convertible Debentures were non-dilutive, as the average market price of the Corporation's common share was below the conversion price. A total of 7,558,684 common shares could potentially have been issued on conversion of the convertible debentures.

The basic and diluted per-share figures for the three-month period ended June 30, 2012, were based on a weighted average number of 81,282,460 and 81,439,011 common shares outstanding respectively. The basic and diluted per-share figures for the six-month period ended June 30, 2012, were based on a weighted average number of 81,282,460 and 81,436,155 common shares outstanding respectively. 1,034,000 stock options were non-dilutive during these periods, as the average market price of the Corporation's common share was below the strike price. The other 1,643,444 stock options were anti-dilutive in the computation of per-share figure, despite the average market price of the Corporation's common share being above the strike price, as the Corporation recognized a net loss for the three- and six-month periods ended June 30, 2012. Convertible Debentures were non-dilutive, as the average market price of the Corporation's common share was below the conversion price. A total of 7,558,684 common shares could potentially have been issued on conversion of the convertible debentures.

As at June 30, 2013, the Corporation had a total of 94,449,724 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares, 2,000,000 Series C Preferred Shares and 2,736,684 stock options outstanding. As at June 30, 2012, it had 81,282,460 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares and 2,677,444 stock options outstanding.

As at the date of this MD&A, the Corporation had a total of 95,014,255 common shares, 80,500 convertible debentures, 3,400,000 Series A Preferred Shares, 2,000,000 Series C Preferred Shares and 2,736,684 stock options outstanding. The increase in the number of common shares since June 30, 2013, is attributable to the Dividend Reinvestment Plan ("DRIP").

## **Non-controlling Interests**

For the three- and six-month periods ended June 30, 2013, the Corporation allocated earnings of \$2.7 million and losses of \$0.2 million respectively to non-controlling interests (losses of \$2.8 million and \$3.9 million respectively in 2012). These non-controlling interests are related mostly to the six hydroelectric facilities ("Harrison Operating Facilities") acquired as part of the acquisition of Cloudworks Energy Inc., the Fitzsimmons Creek Operating Facility, and the Kwoiek Creek Development Project. Please refer to the "Non-Wholly Owned Subsidiaries" section for more information.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## LIQUIDITY AND CAPITAL RESOURCES

For the six-month period ended June 30, 2013, the Corporation generated cash flows from operating activities of \$48.0 million, compared with \$32.0 million for the same period the previous year. During this period, the Corporation generated funds from financing activities of \$16.9 million and used funds for investing activities of \$78.4 million, mainly to pay for the construction of three projects scheduled to begin commercial operation later this year. The difference between the inflow from financing activities and the outflow from investing activities is due mainly to the Corporation pre-financing its capital expenditure investments in previous quarters. As at June 30, 2013, the Corporation had cash and cash equivalents amounting to \$36.1 million, compared with \$58.6 million as at June 30, 2012.

### Cash Flows from Operating Activities

For the six-month period ended June 30, 2013, cash flows generated by operating activities totalled \$48.0 million (\$32.0 million in 2012). This increase is due primarily to a \$13.8 million increase in Adjusted EBITDA and a positive net variation of \$3.6 million in non-cash operating working capital items.

### Cash Flows from Financing Activities

For the six-month period ended June 30, 2013, cash flows generated by financing activities totalled \$16.9 million (\$31.6 million generated in 2012). This results mainly from a smaller net increase in long-term debt (net increase in long-term debt of \$39.9 million for the six-month period ended June 30, 2013, compared with a net increase of \$57.3 million for the same period in 2012), partly offset by a \$3.1 million net decrease in dividends paid to preferred and common shareholders. The total amount of dividends paid to common shareholders decreased as a result of the implementation of the dividend reinvestment plan in August 2012, while the dividends paid to preferred shareholders increased as a result of the issuance of Series C Preferred Shares in December 2012.

### Use of Financing Proceeds

For the six-month periods ended June 30	2013	2012
Proceeds from issuance of long-term debt	121,414	88,752
Repayment of long-term debt	(78,767)	(31,120)
Payment of deferred financing costs	(2,746)	(326)
Payment of Series C Preferred Shares issuance costs	(353)	
Net funds (invested into) withdrawn from the reserves	(73)	201
Additions to property, plant and equipment	(51,811)	(76,081)
Additions to intangible assets	(28)	(335)
Additions to project development costs	(10,229)	(1,936)
Investments in joint ventures	(5,484)	(100)
Loans to related parties	(13,452)	—
Additions to other long-term assets	(186)	(171)
Use of financing proceeds	(163,129)	(109,868)
Reduction of working capital	(41,715)	(21,116)

During the six-month period ended June 30, 2013, the Corporation borrowed \$121.4 million and used \$41.7 million of its working capital to pay for the construction of the Kwoiek Creek and Northwest Stave River projects, for the pre-construction development of the Upper Lillooet, Boulder Creek, Tretheway Creek and Big Silver Creek projects, to provide cash advances and an equity investment to the Viger-Denonville joint venture, to repay long-term debts and to reduce drawings under the revolving term credit facility. During the corresponding period of 2012, the Corporation borrowed \$88.8 million and used \$21.7 million of its working capital to pay for the construction of the Kwoiek Creek, Northwest Stave River and Gros-Morne II projects, for the construction of Stardale and to repay the Glen Miller long-term debt.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Cash Flows from Investing Activities

For the six-month period ended June 30, 2013, cash flows used by investing activities amounted to \$78.4 million (\$39.9 million in 2012). During this period, additions to property, plant and equipment accounted for a \$51.8 million outflow (\$76.1 million outflow in 2012), cash advances to the Viger-Denonville joint venture in the form of a loan to a related party accounted for a \$13.5 million outflow (nil in 2012), an equity investment in the Viger-Denonville joint venture accounted for a \$5.5 million outflow and additions to project development costs accounted for a \$10.2 million outflow (\$1.9 million outflow in 2012), partly offset by a decrease in restricted cash and short-term investments for a \$2.8 million inflow (\$38.5 million inflow in 2012).

## Cash and Cash Equivalents

For the six-month period ended June 30, 2013, the Corporation used \$13.4 million in cash and cash equivalents (generated \$23.7 million in 2012) as a net result of its operating, financing and investing activities. As at June 30, 2013, the Corporation had cash and cash equivalents amounting to \$36.1 million (\$58.6 million as at June 30, 2012).

## DIVIDENDS

The following dividends were declared by the Corporation:

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Dividends declared on common shares	13,695	11,786	27,320	23,572
Dividends declared on common shares (\$ per share)	0.1450	0.1450	0.2900	0.2900
Dividends declared on Series A Preferred Shares	1,063	1,063	2,125	2,125
Dividends declared on Series A Preferred Shares (\$ per share)	0.3125	0.3125	0.625	0.625
Dividends declared on Series C Preferred Shares	719	—	1,703	—
Dividends declared on Series C Preferred Shares (\$ per share)	0.359375	—	0.851675	—

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

Date of announcement	Record date	Payment date	Dividends per common share (\$)	Dividends per Series A Preferred Share (\$)	Dividends per Series C Preferred Share (\$)
8/8/2013	9/30/2013	10/15/2013	0.1450	0.3125	0.359375

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## FINANCIAL POSITION

At June 30, 2013, the Corporation had \$2.3 billion in total assets, \$1.6 billion in total liabilities, including long-term debt of \$1.3 billion, and \$0.7 billion in shareholders' equity (same as at December 31, 2012).

Also at June 30, 2013, the Corporation had a working capital ratio of 1.74:1.00 (1.58:1.00 as at December 31, 2012). In addition to cash and cash equivalents amounting to \$36.1 million, the Corporation had restricted cash and short-term investments of \$85.0 million and reserve accounts of \$45.9 million at the end of the second quarter.

### Assets

As at June 30, 2013, the Corporation had \$2.3 billion in total assets (same as at December 31, 2012). Significant variations were recognized in the following accounting items:

- a net decrease in cash and cash equivalents and restricted cash and short-term investments from \$137.3 million as at December 31, 2012, to \$121.1 million as at June 30, 2013, due mainly to the lower cash amount maintained and to the Kwoiek Creek loan, which funds have been received and are increasingly being used as construction progresses on this project, partly offset by the increase in cash from the closing of the Northwest Stave River financing;
- a decrease in accounts receivable from \$50.1 million to \$41.9 million, as explained in the "Working Capital" section below;
- an increase in property, plant and equipment from \$1,427 million to \$1,460 million due mainly to the Development Projects under construction and partly offset by depreciation;
- an increase in project development costs from \$103.5 million to \$114.6 million, due mainly to pre-construction activities related to the Upper Lillooet, Boulder Creek, Tretheway Creek and Big Silver Creek projects; and
- a decrease in intangible assets from \$429.4 million to \$418.6 million due mainly to amortization.

### Working Capital Items

As at June 30, 2013, working capital was positive at \$79.0 million with a working capital ratio of 1.74:1.00. As at December 31, 2012, working capital was positive at \$80.9 million with a working capital ratio of 1.58:1.00. The increase in the working capital ratio over this period is due mainly to the reclassification of the Carleton loan back into long-term debt following its refinancing in June 2013; since November 2012, the entire amount of the loan had been recorded in the current portion of long-term debt in view of its November 2013 term maturity.

In view of these ratios, the Corporation considers its current level of working capital to be sufficient to meet its needs. The Corporation can also use its \$425.0 million revolving term credit facility if necessary. As at June 30, 2013, the Corporation had drawn US\$13.9 million and \$158.7 million as cash advances and \$27.2 million had been used for issuing letters of credit.

Restricted cash and short-term investments are related to the Harrison Operating Facilities, the Kwoiek Creek loan and the Northwest Stave River loan. As at June 30, 2013, restricted cash and short-term investments amounted to \$85.0 million, of which \$49.5 million was related to the Kwoiek Creek loan and \$28.9 million was related to the Northwest Stave River loan (\$87.8 million as at December 31, 2012, of which \$81.2 million was related to the Kwoiek Creek loan).

Accounts receivable decreased from \$50.1 million as at December 31, 2012, to \$41.9 million as at June 30, 2013. The decrease stems mainly from the collection of \$6.4 million in commodity taxes receivable for the Gros-Morne wind farm and the \$15.3 million payment for the Gros-Morne substation, partly offset by a \$16.6 million increase in trades receivable.

Loans to related parties decreased during the second quarter ended June 30, 2013, as the parent of the Harrison Operating Facilities completed a distribution which resulted in a decrease of \$23.4 million in loans to related parties, as well as a corresponding decrease in non-controlling interests, with no impact on net earnings (loss) or cash flows. Also in the second quarter, the Corporation recorded a loan to a related party of \$13.5 million, representing cash advances in the Viger-Denonville joint venture until such time as the project-level financing was put in place.

Accounts payable and other payables increased from \$41.3 million as at December 31, 2012, to \$52.7 million as at June 30, 2013, due mainly to accounts payable related to the construction of the Kwoiek Creek project and to the reclassification to short-term liabilities of accounts payable related to the construction of the Northwest Stave River project.

Derivative financial instruments included in current liabilities decreased from \$17.2 million as at December 31, 2012, to \$12.4 million as at June 30, 2013, as a result of the increase in benchmark interest rates.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Current portion of long-term debt relates to the payments to be made within a year on the term loans and bonds of Operating Facilities. The decrease from \$63.9 million as at December 31, 2012, to \$24.2 million as at June 30, 2013, is due mainly to the refinancing of the Carleton loan and the reclassification of the outstanding balance of the loan as long-term debt.

## Reserve Accounts

	June 30, 2013	December 31, 2012
Hydrology/wind reserve	44,935	45,291
Major maintenance reserve	2,792	2,325
<b>Total</b>	<b>47,727</b>	<b>47,616</b>

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

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

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

## Property, Plant and Equipment

Property, plant and equipment are comprised mainly of hydroelectric facilities, wind farms and a solar farm that are either in operation or under construction. They are recorded at cost less accumulated depreciation and accumulated impairment losses. They are depreciated using the straight-line method over the lesser of (i) the period for which the Corporation owns the rights to the assets or (ii) a period of 15 to 75 years for hydroelectric facilities or 15 to 25 years for wind farms or 25 years for the solar farm. The Corporation had \$1,460 million in property, plant and equipment as at June 30, 2013, compared with \$1,427 million as at December 31, 2012. This increase stems mainly from Development Projects under construction, partly offset by depreciation.

## Intangible Assets

Intangible assets consist of various PPAs, permits and licences. They also include the extended warranty for the Carleton, Montagne Sèche and Gros-Morne wind farm turbines. The Corporation reported \$418.6 million in intangible assets as at June 30, 2013, a decrease from the \$429.4 million reported as at December 31, 2012. This decrease stems from amortization. Intangible assets, excluding \$4.7 million related to the wind farms' extended warranty, are amortized using the straight-line method over 11- to 40-year periods that commence when the related project is commissioned or acquired. The wind farms' extended warranty is amortized using the straight-line method over the three-year extended warranty period.

## Project Development Costs

Project development costs are the costs to acquire and develop Development Projects and to acquire Prospective Projects. Depending on their nature, these costs are transferred either to property, plant and equipment or to intangible assets once the project reaches the construction phase. As at June 30, 2013, the Corporation had \$114.6 million in project development costs (\$103.5 million as at December 31, 2012). This increase is due to the Development Projects in permit phase.

## Goodwill

There were no changes during the second quarter of 2013.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Liabilities and Shareholders' Equity

### Long-Term Debt

As at June 30, 2013, long-term debt totalled \$1,273 million (\$1,231 million as at December 31, 2012). The slight increase in long-term debt results mainly from the addition of the \$72.0 million financing for the Northwest Stave River hydroelectric project and the higher proceeds of \$11.6 million from the refinancing of the Carleton wind farm, which were offset by a net decrease in drawings under the revolving term credit facility of \$31.1 million and scheduled long-term debt repayments of \$12.9 million.

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

### Accrual for Acquisition of Long-Term Assets

Accrual for acquisition of long-term assets consists of long-term debt commitments that have been secured and will be drawn to finance the Corporation's projects currently under construction or for which construction has been completed but costs remained to be paid. As at June 30, 2013, the Corporation had \$1.7 million in accrual for acquisition of long-term assets (\$12.9 million as at December 31, 2012). This decrease stems mainly from drawings under the revolving term credit facility for Northwest Stave River.

### Convertible Debentures

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

### Preferred Shares

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

### Common Share Capital and Contributed Surplus from Reduction of Capital on Common Shares

Special resolutions to approve the reduction of the legal stated capital account maintained in respect of the common shares of the Corporation, without any payment or distribution to the shareholders were adopted on May 14, 2013. This resulted in a decrease of \$128.2 million of the shareholders' capital account and an increase of \$128.2 million of the contributed surplus from reduction of capital on common shares account.

### Derivative Financial Instruments and Risk Management

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

The swap contracts allow the Corporation to eliminate the risk of interest rate increases in actual long-term debt, which totalled \$494.7 million as at June 30, 2013. The Corporation also had swap contracts totalling \$47.2 million to hedge all of the Umbata Falls loan. Consequently, as at June 30, 2013, interest rate swaps related to outstanding debts combined with the \$758.2 million in existing fixed-rate debts and the \$79.7 million in convertible debentures mean that 96% of outstanding debts (including those of joint ventures) are protected from interest rate increases.

Derivatives had a net negative value of \$46.3 million at June 30, 2013 (negative \$78.0 million at December 31, 2012). This favourable difference is due mainly to an increase in benchmark interest rates since the end of 2012. The estimated impact of a 0.1% interest rate increase would decrease the interest rate swap-related liability by \$3.8 million. Conversely, a 0.1% interest-rate decrease would increase the interest rate swap-related liability by \$3.8 million. These figures exclude the impact of derivatives used to hedge loans of the Corporation's joint ventures; for information on the impact of derivatives used in the Corporation's joint ventures, please refer to the "Investments in Joint Ventures" section.

As at June 30, 2013, the fair market value of the derivative financial instruments related to some PPAs with Hydro-Québec was positive at \$7.6 million (\$8.4 million as at December 31, 2012). These instruments represent the value attributed to minimum inflation clauses of 3% per year included in these PPAs.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Deferred Income Taxes

The tax impact of temporary differences may result in future tax assets or liabilities. As at June 30, 2013, the Corporation's net deferred tax liability was \$145.1 million (\$133.4 million as at December 31, 2012).

## Off-Balance-Sheet Arrangements

As at June 30, 2013, the Corporation had issued letters of credit totalling \$38.6 million to meet its obligations under its various PPAs and other agreements. Of this amount, \$27.2 million was issued under its revolving term credit facility and the remainder under the projects' non-recourse credit facilities. As at that date, Innergex had also issued a total of \$21.3 million in corporate guarantees to support the construction of the Gros-Morne and Viger-Denonville wind farms, the performance of the Brown Lake and Miller Creek hydroelectric facilities and some Derivatives.

## Shareholders' Equity

As at June 30, 2013, the shareholders' equity of the Corporation totalled \$672.1 million, including \$83.9 million of non-controlling interests, compared with \$687.9 million, including \$107.6 million of non-controlling interests as at December 31, 2012. The slight decrease in total shareholders' equity stems mainly from the \$23.4 million decrease in non-controlling interests resulting from the distribution made by the parent of the Harrison Operating Facilities; the increase in shareholders' equity resulting from the recognition of net earnings was offset by a decrease resulting from dividends declared.

## Other

### Contractual Obligations

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

### Contingencies

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

## SEGMENT INFORMATION

### Geographic Segments

As at June 30, 2013, the Corporation had interests in 21 hydroelectric facilities, five wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the three- and six-month periods ended June 30, 2013, operating revenues generated by the Horseshoe Bend hydroelectric facility in the United States totalled \$1.2 million and \$1.5 million respectively (\$1.1 million and \$1.6 million respectively in 2012), representing contributions of 2.0% and 1.5% respectively (2.1% and 1.9% respectively in 2012) to the Corporation's consolidated operating revenues for these periods.

### Operating Segments

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

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

The accounting policies for these segments are the same as those described in the "Significant Accounting Policies" section of the Corporation's audited consolidated financial statements for the year ended December 31, 2012. The Corporation evaluates performance based on Adjusted EBITDA and accounts for inter-segment and management sales at cost. Any transfers of assets from the site development segment to the hydroelectric, wind power or solar power generation segments are accounted for at cost.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

	Hydroelectric Generation	Wind Power Generation	Solar Power Generation	Site Development	Total
For the three-month period ended June 30, 2013					
Power generated (MWh)	638,994	140,551	12,997	—	792,542
Operating revenues	46,611	11,097	5,459	—	63,167
Expenses:					
Operating expenses	5,567	2,403	289	—	8,259
General and administrative expenses	1,795	615	53	461	2,924
Prospective project expenses	—	—	—	724	724
Adjusted EBITDA	39,249	8,079	5,117	(1,185)	51,260
For the three-month period ended June 30, 2012					
Power generated (MWh)	569,985	110,873	13,804	—	694,662
Operating revenues	41,932	9,034	3,394	—	54,360
Expenses:					
Operating expenses	4,661	1,768	41	—	6,470
General and administrative expenses	1,483	589	29	538	2,639
Prospective project expenses	—	—	—	647	647
Adjusted EBITDA	35,788	6,677	3,324	(1,185)	44,604

	Hydroelectric Generation	Wind Power Generation	Solar Power Generation	Site Development	Total
For the six-month period ended June 30, 2013					
Power generated (MWh)	815,552	343,227	19,932	—	1,178,711
Operating revenues	63,185	27,298	8,372	—	98,855
Expenses:					
Operating expenses	9,644	4,473	600	—	14,717
General and administrative expenses	3,643	1,210	171	902	5,926
Prospective project expenses	—	—	—	1,549	1,549
Adjusted EBITDA	49,898	21,615	7,601	(2,451)	76,663
For the six-month period ended June 30, 2012					
Power generated (MWh)	744,343	255,849	13,804	—	1,013,996
Operating revenues	57,967	21,068	3,394	—	82,429
Expenses:					
Operating expenses	8,386	3,707	41	—	12,134
General and administrative expenses	2,833	1,385	29	1,425	5,672
Prospective project expenses	—	—	—	1,730	1,730
Adjusted EBITDA	46,748	15,976	3,324	(3,155)	62,893

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	Hydroelectric Generation	Wind Power Generation	Solar Power Generation	Site Development	Total
As at June 30, 2013					
Goodwill	8,269	—	—	—	8,269
Total assets	1,274,471	396,392	135,731	494,587	2,301,181
Total liabilities	797,289	383,584	137,890	310,350	1,629,113
Acquisition of property, plant and equipment since the beginning of the year	271	1,770	100	54,757	56,898
As at December 31, 2012					
Goodwill	8,269	—	—	—	8,269
Total assets	1,281,758	423,634	139,222	451,826	2,296,440
Total liabilities	809,611	383,435	144,555	270,907	1,608,508
Acquisition of property, plant and equipment during the year	612	3,682	153	169,449	173,896

## Hydroelectric Generation Segment

For the three-month period ended June 30, 2013, this segment produced 4% more power than the LTA (1% more in 2012), and generated operating revenues of \$46.6 million (\$41.9 million in 2012). The production level was due mainly to above-average water flows in all geographic markets, especially Ontario and the United States. The increase in operating revenues stems mainly from the acquisition of the Brown Lake and Miller Creek facilities.

For the six-month period ended June 30, 2013, the hydroelectric generation segment produced 4% less than the LTA (5% less in 2012) and generated operating revenues of \$63.2 million (\$58.0 million in 2012). The production level is due mainly to water flows being below average in British Columbia and the United States and above average in Quebec and Ontario during the first quarter and above average in all geographic markets, especially Ontario and the United States, during the second quarter. The increase in operating revenues stems mainly from the acquisition of the Brown Lake and Miller Creek facilities.

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

The decrease in total liabilities since December 31, 2012, is attributable mainly to scheduled repayment of long-term debt.

## Wind Power Generation Segment

For the three-month period ended June 30, 2013, the wind power generation segment produced 2% less than the LTA (4% less in 2012) and generated operating revenues of \$11.1 million (\$9.0 million in 2012).

For the six-month period ended June 30, 2013, this segment produced 4% less than the LTA (11% less in 2012), and generated revenues of \$27.3 million (\$21.1 million in 2012).

For both the three-month and the six-month periods ended June 30, 2013, the production levels are due mainly to slightly lower-than-anticipated wind conditions at all wind farms during these periods except at Gros-Morne, which had above-average production in the second quarter, and Carleton, which had above-average production for the six-month period. During the first quarter of 2012, production was also affected by a halt in production at the Gros-Morne wind farm following a load rejection event. The higher operating revenues in 2013 compared with 2012 are due mainly to the additional capacity at the Gros-Morne wind farm.

The decrease in total assets since December 31, 2012, is attributable mainly to depreciation of property, plant and equipment, amortization of intangible assets, and collection of accounts receivable pertaining to commodity taxes and payment by Hydro-Québec for the Gros-Morne substation.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The slight increase in total liabilities since December 31, 2012, is attributable mainly to additional proceeds of \$11 million from the refinancing of the Carleton loan, which was offset by payments of accounts payable related to Gros-Morne and Montagne-Sèche and to scheduled repayment of long-term debt.

## **Solar Power Generation Segment**

This segment was added after the start of commercial operation of the Stardale solar farm on May 15, 2012. For the three-month period ended June 30, 2013, the solar power generation segment produced 3% more than the LTA (8% more in 2012) and generated operating revenues of \$5.5 million (\$3.4 million in 2012). For the six-month period ended June 30, 2013, the solar power generation segment produced 1% less than expected (8% more in 2012), and generated operating revenues of \$8.4 million (\$3.4 million in 2012, after the start of commercial operation on May 15). The production level is due mainly to better-than-average production during the second quarter, which compensated for lower-than-average production in the first quarter due to unusually large snowfalls and extreme cold, which slowed the snow removal process.

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

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

## **Site Development Segment**

For the three-month period ended June 30, 2013, site development expenses of \$1.2 million remained stable compared with the same period last year. For the six-month period ended June 30, 2013, the decrease in general and administrative expenses from \$3.2 million to \$2.5 million is due mainly to the Corporation's operating a greater number of facilities in 2013 than in 2012, resulting in a higher proportion of these expenses in the operating segment.

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## QUARTERLY FINANCIAL INFORMATION

(in millions of dollars, unless otherwise stated)	For the three-month periods ended			
	June 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012
Power generated (MWh)	792,541	386,171	525,123	559,384
Operating revenues	63.2	35.7	47.1	47.1
Adjusted EBITDA	51.3	25.4	34.2	36.6
Unrealized net (gain) loss on derivative financial instruments	(27.3)	(3.8)	(5.3)	(9.6)
Net earnings (loss)	31.0	(0.2)	(0.6)	(0.7)
Net earnings (loss) attributable to owners of the parent	28.3	2.8	1.8	(0.2)
Net earnings (loss) attributable to owners of the parent (\$ per share – basic and diluted)	0.28	0.01	0.01	(0.01)
Dividends declared on preferred shares	1.8	2.0	1.1	1.1
Dividends declared on common shares	13.7	13.6	13.6	13.5
Dividends declared on common shares (\$ per share)	0.145	0.145	0.145	0.145

(in millions of dollars, unless otherwise stated)	For the three-month periods ended			
	June 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sept. 30, 2011
Power generated (MWh)	694,661	319,341	398,383	659,184
Operating revenues	54.3	28.1	32.6	49.9
Adjusted EBITDA	44.6	18.3	21.4	39.6
Unrealized net loss (gain) on derivative financial instruments	27.1	(20.1)	19.0	38.1
Net (loss) earnings	(11.9)	7.8	(21.0)	(21.6)
Net (loss) earnings attributable to owners of the parent	(9.1)	8.9	(13.9)	(26.2)
Net (loss) earnings attributable to owners of the parent (\$ per share – basic and diluted)	(0.12)	0.10	(0.18)	(0.34)
Dividends declared on preferred shares	1.1	1.1	1.1	1.1
Dividends declared on common shares	11.8	11.8	11.8	11.8
Dividends declared on common shares (\$ per share)	0.145	0.145	0.145	0.145

Comparing the results for the most recent quarters makes apparent the seasonality that is characteristic of the Corporation's assets, i.e. that the power generated, operating revenues and Adjusted EBITDA vary from quarter to quarter. As the Corporation's total average long-term consolidated production is 71% hydroelectric, this seasonality can be explained by water flows that are normally at their highest in the second quarter due to the snow melt season and at their lowest in the first quarter due to the cold temperatures, which limit precipitation in the form of rain. Furthermore, solar irradiation is at its highest during the summer months and at its lowest during the winter months. However, premiums for the electricity generated during the coldest months of the year included in some PPAs of the Corporation's hydroelectric facilities attenuate this seasonality. The production of the wind farms also partially compensates for this seasonality experienced by hydroelectric facilities, as wind regimes are generally best in the first quarter of a typical year.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

## CRITICAL ACCOUNTING ESTIMATES

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

## ACCOUNTING CHANGES

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

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

The impact of the application of these standards is described below.

### Impact of the application of IFRS 10

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Impact of the application of IFRS 11

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

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

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

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

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

## Impact of the application of IFRS 12

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. The application of IFRS 12 has resulted in more extensive disclosures appearing in notes 7, 14 and 16 of the condensed consolidated financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## INVESTMENTS IN JOINT VENTURES

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

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

### Electricity Production

For the three-month periods ended June 30	2013				2012			
	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
Umbata Falls	39,416	37,824	104%	84.38	40,896	37,824	108%	84.18

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

2. Including payments received from the ecoENERGY Initiative.

For the six-month periods ended June 30	2013				2012			
	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>	Production (MWh) <sup>1</sup>	LTA (MWh) <sup>1</sup>	Production as a % of LTA	Average price (\$/MWh) <sup>2</sup>
Umbata Falls	58,257	54,750	106%	84.35	57,565	54,750	105%	81.29

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

2. Including payments received from the ecoENERGY Initiative.

### Umbata Falls, L.P.

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

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Operating revenues	3,324	3,442	4,914	4,846
Operating and general and administrative expenses	186	186	367	372
Adjusted EBITDA	3,138	3,256	4,547	4,474
Finance costs	631	626	1,242	1,256
Other net revenues	(8)	(8)	(16)	(9)
Depreciation and amortization	1,007	1,007	2,013	2,013
Unrealized net (gain) loss on derivative financial instruments	(2,958)	1,847	(3,418)	(3)
Net earnings (loss) and comprehensive income (loss)	4,466	(216)	4,726	1,217

The unrealized net gains on derivative financial instruments recorded in the three- and six-month periods ended June 30, 2013, are due to the increase in benchmark interest rates since the end of 2012, while an unrealized net loss on derivative financial instruments was recorded in the second quarter of 2012 due to a decrease in benchmark interest rates during that period.

#### Umbata Falls' Summary Statements of Financial Position

	June 30, 2013	December 31, 2012
Current assets	3,432	2,801
Non-current assets	77,723	79,679
Current liabilities	2,413	2,382
Non-current liabilities	49,266	53,225
Shareholders' equity	29,476	26,873

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Umbata Falls, L.P. uses derivative financial instruments to manage its exposure to the risk of increasing interest rates on its debt financing and does not own or issue any Derivatives for speculation purposes. Interest-rate swaps used to hedge the interest rate on 100% of the Umbata Falls loan had a net negative value of \$4.3 million at June 30, 2013 (negative \$7.7 million at December 31, 2012). This favourable difference is due mainly to an increase in benchmark interest rates since the end of 2012. The estimated impact of a 0.1% interest rate increase would decrease the interest rate swap-related liability by \$0.5 million. Conversely, a 0.1% interest rate decrease would increase the interest rate swap-related liability by \$0.5 million.

## Viger-Denonville, L.P.

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

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Operating revenues	—	—	—	—
Operating and general and administrative expenses	2	3	4	5
Adjusted EBITDA	(2)	(3)	(4)	(5)
Finance costs	—	—	—	—
Other net revenues	(897)	—	(897)	—
Depreciation and amortization	1	—	1	—
Unrealized net gain on derivative financial instruments	(2,392)	—	(1,888)	—
Net earnings (loss) and comprehensive income (loss)	3,286	(3)	2,780	(5)

Other income recorded pertains mainly to a realized gain on foreign exchange contracts that were used to secure the exchange rate on planned equipment purchases for the project. The unrealized net gains on derivative financial instruments recorded in the three- and six-month periods ended June 30, 2013, are due to the increase in benchmark interest rates since the end of 2012. This project is currently under construction and is expected to reach commercial operation by the end of 2013.

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

	June 30, 2013	December 31, 2012
Current assets	10,999	4,791
Non-current assets	31,434	7,274
Current liabilities	14,107	200
Non-current liabilities	3,042	328
Shareholders' equity	25,284	11,537

The increase in balance sheet items is due to the start of construction activities for the Viger-Denonville wind project. In addition, the increase in current liabilities is due to a cash advance of \$13.5 million made by the Corporation until such time as the project-level financing was put in place. The increase in shareholders' equity is due to the net earnings recognized during the first half of the year and to an investment of \$5.5 million made by each of the partners in the joint venture.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Viger-Denonville, L.P. uses derivative financial instruments to manage its exposure to the risk of increasing interest rates on its debt financing and to equipment purchases in a currency other than Canadian dollars; it does not own or issue any Derivatives for speculation purposes. Bond forward contracts used to hedge the interest rate on the Viger-Denonville financing had a net positive value of \$2.0 million at June 30, 2013 (negative \$0.2 million at December 31, 2012). This favourable difference is due mainly to an increase in benchmark interest rates since the end of 2012. On August 7, 2013, Viger-Denonville, L.P. settled the Viger-Denonville bond forwards simultaneously with the closing of the interest-swapped long-term financing for this project, which will result in a realized gain on derivative financial instruments of \$2.2 million during the third quarter. This gain results from the increase in benchmark interest rates between the date the bond forwards were entered into (December 2012) and the settlement date (August 2013) and compensates for the higher fixed interest rate on the Viger-Denonville loan for its 18-year term. Please refer to the "Subsequent Events" section for more information.

Foreign exchange forward contracts used to purchase equipment in a currency other than the Canadian dollar had a net positive value of \$0.5 million at June 30, 2013 (positive \$0.8 million at December 31, 2012). This difference is due mainly to a decrease in the nominal value of the foreign exchange forward contracts since December 31, 2012 and the recognition of a foreign exchange gain upon the rollover of certain contracts; this gain was partly offset by a decrease in the Canadian dollar against the euro since the end of 2012. The estimated impact of an increase in the Canadian dollar value of \$0.01 against €1.00 would decrease the forward foreign exchange-related asset by \$0.07 million. Conversely, a decrease of the Canadian dollar value of \$0.01 against €1.00 would increase the forward foreign exchange-related asset by \$0.07 million.

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

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

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

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

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Revenues	21,007	20,290	25,861	25,451
Adjusted EBITDA	18,628	18,005	21,366	21,571
Net earnings (loss) and comprehensive income (loss)	4,890	4,191	(754)	(2,375)
Net earnings (loss) and comprehensive income (loss) attributable to:				
Owners of the parent	2,296	2,024	(669)	(1,433)
Non-controlling interests	2,594	2,167	(85)	(942)
	4,890	4,191	(754)	(2,375)

The smaller net loss in the first half of 2013, compared with the same periods in 2012, is due mainly to a lower interest expense, resulting from greater negative inflation compensation interest on the real return bonds for the six hydroelectric facilities ("Harrison Operating Facilities") during the first quarter of 2013 than the first quarter of 2012, which was partly offset by higher operating expenses.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Harrison Hydro L.P.'s Summary Statements of Financial Position

	June 30, 2013	December 31, 2012
Current assets	30,312	69,089
Non-current assets	671,558	680,279
Current liabilities	13,994	16,588
Non-current liabilities	461,970	459,221
Equity attributable to owners	134,582	158,706
Non-controlling interests	91,324	114,853

During the fourth quarter of 2012, Harrison Hydro initiated a distribution of \$46.9 million in the form of loans to its shareholders; in the second quarter of 2013, it declared a distribution that allowed for these loans to be reimbursed by the shareholders, resulting in a decrease in current assets as well as a decrease in equity attributable to owners and non-controlling interests. There has been no impact on net earnings (loss) and on cash outflow during the second quarter, as the outflow of funds from investing activities of \$46.9 million resulting from the loans had already been recorded in the fourth quarter of 2012.

## Harrison Hydro L.P.'s Summary Statements of Cash Flows

For the six-month periods ended	June 30, 2013	June 30, 2012
Net cash (outflow) inflow from operating activities	(6,415)	4,209
Net cash outflow from financing activities	(3,896)	(3,726)
Net cash inflow from investing activities	4,199	37,662
Net (decrease) increase in cash and cash equivalents	(6,112)	38,145

The net cash outflow from operations in the first half of 2013, compared with a net inflow in the same period of 2012, is due mainly to a negative variation in non-cash operating working capital items resulting from an increase in accounts receivable and a decrease in accounts payable since December 31, 2012.

## Creek Power Inc. and Its Six Subsidiaries

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

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Revenues	858	721	868	729
Adjusted EBITDA	413	234	34	(73)
Net earnings (loss) and comprehensive income (loss)	472	(1,351)	(358)	(1,635)
Net earnings (loss) and comprehensive income (loss) attributable to:				
Owners of the parent	320	(665)	(226)	(1,253)
Non-controlling interest	152	(686)	(132)	(382)
	472	(1,351)	(358)	(1,635)

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

	June 30, 2013	December 31, 2012
Current assets	1,234	1,358
Non-current assets	48,028	40,010
Current liabilities	10,912	8,987
Non-current liabilities	50,178	43,852
Deficit attributable to owners	(11,692)	(11,467)
Non-controlling interest	(136)	(4)

The increase in non-current assets and corresponding increase in equity attributable to owners is due mainly to pre-construction spending for the Upper Lillooet and Boulder Creek projects.

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

For the six-month periods ended	June 30, 2013	June 30, 2012
Net cash outflow from operating activities	(969)	(697)
Net cash inflow from financing activities	8,048	1,273
Net cash outflow from investing activities	(7,873)	(1,081)
Net decrease in cash and cash equivalents	(794)	(505)

## Kwoiek Creek Resources L.P.

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

For the periods ended June 30	Three months		Six months	
	2013	2012	2013	2012
Revenues	—	—	—	—
Adjusted EBITDA	(2)	(2)	(5)	(4)
Net loss and comprehensive loss	(2)	(8,583)	(5)	(5,204)
Net loss and comprehensive loss attributable to:				
Owners of the parent	(1)	(4,292)	(2)	(2,600)
Non-controlling interest	(1)	(4,291)	(3)	(2,604)
	(2)	(8,583)	(5)	(5,204)

The net losses recorded for the second quarter and the six-month period ended June 30, 2012, are due mainly to an unrealized loss on derivative financial instruments resulting from the decrease in benchmark interest rates since the end of 2011.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## Kwoiek Creek Resources L.P.'s Summary Statements of Financial Position

	June 30, 2013	December 31, 2012
Current assets	57,212	88,502
Non-current assets	156,517	113,796
Current liabilities	25,985	17,529
Non-current liabilities	202,404	199,424
Deficit attributable to owners	(7,529)	(7,527)
Non-controlling interests	(7,131)	(7,128)

The small amount of equity attributable to owners is due to the fact that the Corporation's investment is under the form of subordinated debt and preferred units, and is therefore included in non-current liabilities.

## Kwoiek Creek Resources L.P.'s Summary Statements of Cash Flows

For the six-month periods ended	June 30, 2013	June 30, 2012
Net cash inflow from operating activities	488	509
Net cash inflow from financing activities	2,980	28,485
Net cash outflow from investing activities	(2,545)	(28,225)
Net increase in cash and cash equivalents	923	769

## SUBSEQUENT EVENTS

### Closing of the Magpie Acquisition

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

The Corporation has acquired 99.999% of the common units of the facility. However, the Minganie Regional County Municipality holds 30% of the voting units as well as a convertible debenture with a nominal value of \$3.0 million, which carries an annual interest payment of approximately \$465, and a \$2.0 million non-interest bearing debenture repayable over the next five years. The convertible debenture entitles the municipality to a 30% interest in the facility upon conversion of the debenture on January 1, 2025; once the non-interest bearing debenture has been repaid, the Corporation will have the option of triggering the conversion of this debenture at any time prior to this date.

The Corporation has paid the final purchase price of \$28.6 million in cash and assumes project-level debt totalling \$55.4 million, which includes \$50.4 million in non-recourse financing with blended monthly payments of approximately \$406 until 2017 and approximately \$379 thereafter until 2031, for a blended fixed interest rate of 6.35%, as well as the two debentures held by the Minganie Regional County Municipality mentioned above. These debts will be adjusted to fair value upon consolidation by the Corporation. Net cash flows from the facility which have been accruing to the Corporation since August 31, 2012, are included in the cash balance transferred to the Corporation upon closing.

### Acquisition of Other Hydromega Assets

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Corporation continues to advance negotiations with Hydromega to acquire other assets under this letter of intent while at the same time taking into consideration the impact of the recent increase in long-term interest rates and the decline in the Corporation's share price in order to ensure that these acquisitions will be accretive. Given current market conditions, the Corporation does not intend to carry out a public offering of common shares at this time.

Also concurrent with the announcement of the Magpie acquisition in July 2012, the Corporation had entered into a \$25.0 million deposit agreement with Hydromega, bearing interest at a rate of 7% annually, to be applied against the purchase price of any Hydromega asset. This deposit was not used to fund the Magpie acquisition and remains in place to fund the eventual purchase of other Hydromega assets. The deposit agreement also contains a right of first offer for, and an option to acquire, the 30.5 MW operating facility in Quebec.

## Closing of the Viger-Denonville wind project financing

On August 7, 2013, Parc éolien communautaire Viger-Denonville, s.e.c. ("Viger-Denonville, L.P.") closed a \$61.7 million non-recourse construction and term project financing for the Viger-Denonville wind energy project, located in Quebec. The \$61.7 million construction loan will carry a fixed interest rate of 6.0% (through the use of swaps) starting on December 31, 2013; following the start of the project's commercial operation, it will convert into an 18-year term loan. Viger-Denonville, L.P. has also closed a short-term loan of \$5.5 million carrying a floating interest rate, to finance the construction of the substation and collector system, for which it is entitled to be reimbursed by Hydro-Québec in 2014. These loans have been arranged by KfW IPEX-Bank GmbH as agent and lender.

The proceeds of the financing will be used to fund just over 80% of the total project costs. Concurrent with the closing of the financing, Viger-Denonville, L.P. has settled the bond forward contracts used to hedge the interest rate on the debt and therefore protect the expected returns on the project, giving rise to a realized gain on derivative financial instruments of \$2.2 million; this is equivalent to a fixed interest rate of approximately 5.5% on the loan.

## Changes to the Dividend Reinvestment Plan (DRIP)

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

In addition, during the second quarter the Corporation amended the terms of its DRIP to remove the provision whereby under certain circumstances, the Corporation could choose to limit the amount of new equity made available under the plan for a given dividend payment, and make the dividend payment in cash instead. This change came into effect on May 23, 2013.

## ADDITIONAL INFORMATION AND UPDATES

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## INFORMATION FOR INVESTORS

### Stock Exchange Listing

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

### Rating Agencies

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

### Transfer Agent and Registrar

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

### Dividend Reinvestment Plan

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

For more information about the Corporation's DRIP, please visit our Website at [www.innergex.com](http://www.innergex.com) or contact the DRIP administrator, Computershare Trust Company of Canada.

### Independent Auditor

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

### Investor Relations

If you have inquiries, please visit our website at [www.innergex.com](http://www.innergex.com) or contact:

Jean Trudel, MBA  
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# CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

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

		Three-month period ended June 30, 2013	Three-month period ended June 30, 2012	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
	Notes		(Note 2.2.1)		(Note 2.2.1)
<b>Revenues</b>					
Operating		63,167	54,360	98,855	82,429
<b>Expenses</b>					
Operating	4	8,259	6,470	14,717	12,134
General and administrative		2,924	2,639	5,926	5,672
Prospective project expenses		724	647	1,549	1,730
Earnings before finance costs, income taxes, depreciation, amortization, other net expenses (revenues), share of (earnings) loss of joint ventures and unrealized net (gain) loss on derivative financial instruments		51,260	44,604	76,663	62,893
Finance costs	5	18,826	18,194	31,778	32,130
Other net expenses (revenues)	6	2,958	(822)	585	(1,421)
Earnings before income taxes, depreciation, amortization, share of (earnings) loss of joint ventures and unrealized net (gain) loss on derivative financial instruments		29,476	27,232	44,300	32,184
Depreciation		11,999	10,373	24,008	19,741
Amortization		5,453	5,250	10,905	10,439
Share of (earnings) loss of joint ventures	7	(3,832)	108	(3,706)	(594)
Unrealized net (gain) loss on derivative financial instruments		(27,318)	27,105	(31,156)	7,006
<b>Earnings (loss) before income taxes</b>		<b>43,174</b>	<b>(15,604)</b>	<b>44,249</b>	<b>(4,408)</b>
Provision (recovery) for income taxes :					
Current		854	478	1,658	950
Deferred		11,281	(4,217)	11,730	(1,298)
		12,135	(3,739)	13,388	(348)
<b>Net earnings (loss)</b>		<b>31,039</b>	<b>(11,865)</b>	<b>30,861</b>	<b>(4,060)</b>
Net earnings (loss) attributable to:					
Owners of the parent		28,302	(9,055)	31,099	(132)
Non-controlling interests		2,737	(2,810)	(238)	(3,928)
		31,039	(11,865)	30,861	(4,060)
Weighted average number of common shares outstanding (in 000)	8	94,370	81,282	94,142	81,282
Basic net earnings (loss) per share	8	0.28	(0.12)	0.29	(0.03)
Diluted weighted average number of common shares outstanding (in 000)	8	94,433	81,439	94,219	81,436
Diluted net earnings (loss) per share	8	0.28	(0.12)	0.29	(0.03)

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

# CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

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

	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
		(Note 2.2.1)		(Note 2.2.1)
Net earnings (loss)	31,039	(11,865)	30,861	(4,060)
Other items of comprehensive income (loss) that could be reclassified to profit or loss:				
Foreign exchange gain on translation of a self-sustaining foreign subsidiary	183	79	279	8
Deferred income tax provision	(24)	(10)	(36)	(1)
Foreign exchange loss on the designated portion of the US dollar denominated debt used as hedge on the investment in a self-sustaining foreign subsidiary	(187)	(86)	(286)	(14)
Deferred income tax recovery	24	11	37	2
Total adjustments to net earnings (loss)	(4)	(6)	(6)	(5)
<b>Total comprehensive income (loss)</b>	<b>31,035</b>	<b>(11,871)</b>	<b>30,855</b>	<b>(4,065)</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Owners of the parent	28,298	(9,061)	31,093	(137)
Non-controlling interests	2,737	(2,810)	(238)	(3,928)
	<b>31,035</b>	<b>(11,871)</b>	<b>30,855</b>	<b>(4,065)</b>

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



# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

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

As at		June 30, 2013	December 31, 2012	January 1, 2012
	Notes		(Note 2.2.2)	(Note 2.2.3)
<b>Assets</b>				
Current assets				
Cash and cash equivalents		36,064	49,496	34,863
Restricted cash and short-term investments		84,986	87,811	53,415
Accounts receivable		41,908	50,062	36,558
Reserve accounts		1,794	1,816	—
Income tax receivable		7	443	1,664
Derivative financial instruments		1,610	1,693	1,791
Loans to related parties	15	13,452	23,444	—
Prepaid and others		5,992	4,715	3,977
		185,813	219,480	132,268
Reserve accounts		45,933	45,800	41,239
Property, plant and equipment	9	1,460,181	1,427,112	1,231,710
Intangible assets		418,595	429,424	429,512
Project development costs		114,638	103,529	97,241
Investments in joint ventures	7	27,085	18,935	14,499
Derivative financial instruments		5,948	6,698	8,248
Deferred tax assets		3,645	5,846	24,485
Goodwill		8,269	8,269	8,269
Other long-term assets		31,074	31,347	17,998
		2,301,181	2,296,440	2,005,469

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

# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)

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

As at		June 30, 2013	December 31, 2012	January 1, 2012
	Notes		(Note 2.2.2)	(Note 2.2.3)
<b>Liabilities</b>				
<b>Current liabilities</b>				
		15,477	14,643	12,848
		52,723	41,253	26,559
		1,997	1,541	2,835
		12,434	17,198	19,060
	10	24,191	63,926	18,982
		—	—	983
		106,822	138,561	81,267
<b>Non-current liabilities</b>				
		284	1,668	2,081
		33,583	60,808	68,386
		1,651	12,899	41,267
	10	1,249,200	1,166,782	1,006,646
		79,742	79,655	79,490
		2,894	2,775	2,904
		6,227	6,095	3,858
		148,710	139,265	140,454
		1,629,113	1,608,508	1,426,353
<b>Shareholders' equity</b>				
	11	1	120,500	1
		131,069	131,069	82,589
	11	784,482	656,281	656,281
		1,682	1,511	1,361
		1,340	1,340	1,340
		(330,670)	(330,621)	(277,083)
		235	241	228
		588,139	580,321	464,717
		83,929	107,611	114,399
		672,068	687,932	579,116
		2,301,181	2,296,440	2,005,469

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

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

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

For the six-month period ended June 30, 2013	Number of common shares (In 000's)	Common share capital account	Preferred shares	Contributed surplus from reduction of capital on common shares	Share-based payment	Equity portion of convertible debentures	Deficit	Accumulated other comprehensive income	Equity attributable to owners	Non-controlling interests	Shareholders' equity
Balance January 1, 2013	93,660	120,500	131,069	656,281	1,511	1,340	(330,621)	241	580,321	107,611	687,932
Net earnings (loss)							31,099		31,099	(238)	30,861
Other items of comprehensive income (loss)								(6)	(6)		(6)
<b>Total comprehensive income (loss)</b>	—	—	—	—	—	—	31,099	(6)	31,093	(238)	30,855
Common shares issued through dividend reinvestment plan	790	7,702							7,702		7,702
Reduction of capital on Common shares (Note 11)		(128,201)		128,201					—		—
Share-based payment					171				171		171
Distributions to non-controlling interests (Note 15)										(23,444)	(23,444)
Dividends declared on Common shares							(27,320)		(27,320)		(27,320)
Dividends declared on Preferred shares							(3,828)		(3,828)		(3,828)
<b>Balance June 30, 2013</b>	<b>94,450</b>	<b>1</b>	<b>131,069</b>	<b>784,482</b>	<b>1,682</b>	<b>1,340</b>	<b>(330,670)</b>	<b>235</b>	<b>588,139</b>	<b>83,929</b>	<b>672,068</b>

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

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

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

For the six-month period ended June 30, 2012	Number of common shares (In 000's)	Common share capital account	Preferred shares	Contributed surplus from reduction of capital on common shares	Share- based payment	Equity portion of convertible debentures	Deficit	Accumulated other comprehensive income	Equity attributable to owners	Non- controlling interests	Shareholders' equity
Balance January 1, 2012	81,282	1	82,589	656,281	1,361	1,340	(277,083)	228	464,717	114,399	579,116
Net loss							(132)		(132)	(3,928)	(4,060)
Other items of comprehensive loss								(5)	(5)		(5)
Total comprehensive loss	—	—	—	—	—	—	(132)	(5)	(137)	(3,928)	(4,065)
Share-based payment					222				222		222
Dividends declared on Common shares							(23,572)		(23,572)		(23,572)
Dividends declared on Preferred shares							(2,125)		(2,125)		(2,125)
Balance June 30, 2012	81,282	1	82,589	656,281	1,583	1,340	(302,912)	223	439,105	110,471	549,576

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

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

		Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
	Notes		(Note 2.2.4)
<b>Operating activities</b>			
Net earnings (loss)		30,861	(4,060)
Items not affecting cash:			
Depreciation		24,008	19,741
Amortization		10,905	10,439
Share of earnings of joint ventures		(3,706)	(594)
Unrealized net (gain) loss on derivative financial instruments		(31,156)	7,006
Inflation compensation interest	5	1,184	3,356
Amortization of financing fees	5	462	308
Amortization of revaluation of long-term debt and convertible debentures	5	781	758
Accretion expense on asset retirement obligations	5	132	353
Accretion expense on contingent considerations	5	119	115
Share-based payment		171	222
Deferred income taxes		11,730	(1,298)
Effect of exchange rate fluctuations		327	(12)
Others		(41)	—
Interest on long-term debt and convertible debentures	5	28,938	27,240
Interest paid		(28,933)	(27,097)
Distributions received from joint ventures		1,040	—
Gain on contingent considerations	6	—	(358)
Provision for current income taxes		1,658	950
Net income taxes paid		(783)	(1,783)
		47,697	35,286
Changes in non-cash operating working capital items	13	289	(3,267)
		47,986	32,019
<b>Financing activities</b>			
Dividends paid on Common shares		(19,504)	(23,572)
Dividends paid on Preferred shares		(3,111)	(2,125)
Increase of long-term debt		121,414	88,752
Repayment of long-term debt		(78,767)	(31,120)
Payment of deferred financing costs		(2,746)	(326)
Payment of issuance costs on preferred shares		(353)	—
		16,933	31,609

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

# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

		Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
	Notes		(Note 2.2.4)
<b>Investing activities</b>			
Decrease of restricted cash and short-term investments		2,825	38,486
Loans to related parties	15	(13,452)	—
Net funds withdrawn from the hydrology/wind power reserve		392	192
Net funds (invested into) withdrawn from the major maintenance reserve		(465)	9
Additions to property, plant and equipment		(51,811)	(76,081)
Additions to intangible assets		(28)	(335)
Additions to project development costs		(10,229)	(1,936)
Investments in joint ventures		(5,484)	(100)
Addition to other long-term assets		(186)	(171)
Proceeds from disposal of property, plant and equipment		56	7
		(78,382)	(39,929)
Effects of exchange rate changes on cash and cash equivalents		31	8
Net (decrease) increase in cash and cash equivalents		(13,432)	23,707
Cash and cash equivalents, beginning of period		49,496	34,863
<b>Cash and cash equivalents, end of period</b>		<b>36,064</b>	<b>58,570</b>
<i>Cash and cash equivalents is comprised of:</i>			
Cash		29,408	50,078
Short-term investments		6,656	8,492
		36,064	58,570

Additional information is presented in Note 13.

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## DESCRIPTION OF BUSINESS

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

These unaudited condensed consolidated financial statements were approved by the Board of Directors on August 8, 2013.

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

## 1. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

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

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

## 2. APPLICATION OF NEW AND REVISED IFRS

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

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

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

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

## **Impact of the application of IFRS 11**

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

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

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

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

## **Impact of the application of IFRS 12**

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. The application of IFRS 12 has resulted in more extensive disclosures appearing in notes 7, 14 and 16.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 2.2 Additional IFRS information

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

	Three-month period ended June 30, 2012		
	As previously reported	IFRS 11 adjustments	As restated
<b>Revenues</b>			
Operating	56,047	(1,687)	54,360
<b>Expenses</b>			
Operating	6,530	(60)	6,470
General and administrative	2,674	(35)	2,639
Prospective project expenses	647	—	647
Earnings before finance costs, income taxes, depreciation, amortization, other net revenues, share of loss of joint ventures and unrealized net loss on derivative financial instruments	46,196	(1,592)	44,604
Finance costs	18,499	(305)	18,194
Other net revenues	(825)	3	(822)
Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and unrealized net loss on derivative financial instruments	28,522	(1,290)	27,232
Depreciation	10,698	(325)	10,373
Amortization	5,418	(168)	5,250
Share of loss of joint ventures	—	108	108
Unrealized net loss on derivative financial instruments	28,010	(905)	27,105
Loss before income taxes	(15,604)	—	(15,604)
Provision (recovery) for income taxes :			
Current	478	—	478
Deferred	(4,217)	—	(4,217)
	(3,739)	—	(3,739)
<b>Net loss</b>	<b>(11,865)</b>	<b>—</b>	<b>(11,865)</b>
Net loss attributable to:			
Owners of the parent	(9,055)	—	(9,055)
Non-controlling interests	(2,810)	—	(2,810)
	(11,865)	—	(11,865)

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

	Six-month period ended June 30, 2012		
	As previously reported	IFRS 11 adjustments	As restated
<b>Revenues</b>			
Operating	84,804	(2,375)	82,429
<b>Expenses</b>			
Operating	12,254	(120)	12,134
General and administrative	5,741	(69)	5,672
Prospective project expenses	1,730	—	1,730
Earnings before finance costs, income taxes, depreciation, amortization, other net revenues, share of earnings of joint ventures and unrealized net loss on derivative financial instruments	65,079	(2,186)	62,893
Finance costs	32,743	(613)	32,130
Other net revenues	(1,426)	5	(1,421)
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net loss on derivative financial instruments	33,762	(1,578)	32,184
Depreciation	20,391	(650)	19,741
Amortization	10,775	(336)	10,439
Share of earnings of joint ventures	—	(594)	(594)
Unrealized net loss on derivative financial instruments	7,004	2	7,006
Loss before income taxes	(4,408)	—	(4,408)
Provision (recovery) for income taxes :			
Current	950	—	950
Deferred	(1,298)	—	(1,298)
	(348)	—	(348)
<b>Net loss</b>	<b>(4,060)</b>	<b>—</b>	<b>(4,060)</b>
Net loss attributable to:			
Owners of the parent	(132)	—	(132)
Non-controlling interests	(3,928)	—	(3,928)
	(4,060)	—	(4,060)

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

	As previously reported	IFRS 11 adjustments	As restated
<b>Liabilities</b>			
<b>Current liabilities</b>			
Dividends payable to shareholders	14,643	—	14,643
Accounts payable and other payables	41,337	(84)	41,253
Income tax liabilities	1,541	—	1,541
Derivative financial instruments	17,855	(657)	17,198
Current portion of long-term debt	64,452	(526)	63,926
	139,828	(1,267)	138,561
Construction holdbacks	1,668	—	1,668
Derivative financial instruments	64,023	(3,215)	60,808
Accrual for acquisition of long-term assets	13,063	(164)	12,899
Long-term debt	1,189,649	(22,867)	1,166,782
Liability portion of convertible debentures	79,655	—	79,655
Contingent considerations	2,775	—	2,775
Asset retirement obligations	6,095	—	6,095
Deferred tax liabilities	139,265	—	139,265
	1,636,021	(27,513)	1,608,508
<b>Shareholders' equity</b>			
Common share capital	120,500	—	120,500
Preferred shares	131,069	—	131,069
Contributed surplus from reduction of capital on common shares	656,281	—	656,281
Share-based payment	1,511	—	1,511
Equity portion of convertible debentures	1,340	—	1,340
Deficit	(330,621)	—	(330,621)
Accumulated other comprehensive income	241	—	241
Equity attributable to owners	580,321	—	580,321
Non-controlling interests	107,611	—	107,611
Total shareholders' equity	687,932	—	687,932
	2,323,953	(27,513)	2,296,440

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

	As previously reported	IFRS 11 adjustments	As restated
<b>Liabilities</b>			
<b>Current liabilities</b>			
Dividends payable to shareholders	12,848	—	12,848
Accounts payable and other payables	26,616	(57)	26,559
Income tax liabilities	2,835	—	2,835
Derivative financial instruments	20,287	(1,227)	19,060
Current portion of long-term debt	19,475	(493)	18,982
Contingent considerations	983	—	983
	83,044	(1,777)	81,267
Construction holdbacks	2,081	—	2,081
Derivative financial instruments	71,158	(2,772)	68,386
Accrual for acquisition of long-term assets	41,267	—	41,267
Long-term debt	1,030,037	(23,391)	1,006,646
Liability portion of convertible debentures	79,490	—	79,490
Contingent considerations	2,904	—	2,904
Asset retirement obligations	3,858	—	3,858
Deferred tax liabilities	140,454	—	140,454
	1,454,293	(27,940)	1,426,353
<b>Shareholders' equity</b>			
Common share capital	1	—	1
Preferred shares	82,589	—	82,589
Contributed surplus from reduction of capital on common shares	656,281	—	656,281
Share-based payment	1,361	—	1,361
Equity portion of convertible debentures	1,340	—	1,340
Deficit	(277,083)	—	(277,083)
Accumulated other comprehensive income	228	—	228
Equity attributable to owners	464,717	—	464,717
Non-controlling interests	114,399	—	114,399
Total shareholders' equity	579,116	—	579,116
	2,033,409	(27,940)	2,005,469

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

	As previously reported	IFRS 11 adjustments	As restated
Net cash inflow from operating activities	33,456	(1,437)	32,019
Net cash inflow from financing activities	31,367	242	31,609
Net cash outflow from investing activities	(40,211)	282	(39,929)
Effects of exchange rate changes on cash and cash equivalents	8	—	8
Net increase in cash and cash equivalents	24,620	(913)	23,707

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Investments in joint ventures

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

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

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Corporation reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

## 3.2 Investments in joint operations

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

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

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

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

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

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

## 4. OPERATING EXPENSES

	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Salaries	741	700	1,390	1,332
Insurance	498	411	986	808
Operation and maintenance	3,848	2,715	6,916	5,490
Property taxes and royalties	3,172	2,644	5,425	4,504
	8,259	6,470	14,717	12,134

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



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 5. FINANCE COSTS

	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Interest on long-term debt and on convertible debentures	14,620	13,790	28,938	27,240
Inflation compensation interest	3,308	3,581	1,184	3,356
Amortization of financing fees	244	173	462	308
Amortization of revaluation of long-term debt and convertible debentures	364	349	781	758
Accretion expense on asset retirement obligations	66	244	132	353
Accretion expense on contingent considerations	62	57	119	115
Others	162	—	162	—
	18,826	18,194	31,778	32,130

## 6. OTHER NET EXPENSES (REVENUES)

	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Transaction costs	165	95	276	95
Realized loss on derivative financial instruments	3,259	—	3,259	—
Realized loss on foreign exchange	195	92	261	—
Gain on contingent considerations	—	—	—	(358)
Other net revenues	(661)	(239)	(1,211)	(388)
Compensation from contractor	—	(770)	—	(770)
Settlement of claims received in relation with an acquisition	—	—	(2,000)	—
	2,958	(822)	585	(1,421)

## 7. INVESTMENTS IN JOINT VENTURES

### 7.1 Details of material joint ventures

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

## Umbata Falls, L.P.

### Summary Statements of Financial Position

As at	June 30, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	1,655	1,254	73
Other current assets	1,777	1,547	822
<b>Current assets</b>	<b>3,432</b>	<b>2,801</b>	<b>895</b>
Non-current assets	77,723	79,679	83,244
Accounts payable and other payables	173	155	66
Other current liabilities	2,240	2,227	3,512
<b>Current liabilities</b>	<b>2,413</b>	<b>2,382</b>	<b>3,578</b>
Non-current liabilities	49,266	53,225	53,394

### Summary Statements of Earnings and Comprehensive Income

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Revenues	4,914	4,846
Operating, general and administrative expenses	367	372
	<b>4,547</b>	<b>4,474</b>
Finance costs	1,242	1,256
Others net revenues	(16)	(9)
Depreciation and amortization	2,013	2,013
Unrealized net gain on derivative financial instruments	(3,418)	(3)
<b>Net earnings and comprehensive income</b>	<b>4,726</b>	<b>1,217</b>

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

As at	June 30, 2013	December 31, 2012	January 1, 2012
Net assets of the joint venture	29,476	26,873	27,167
Proportion of the Corporation's ownership interest in the joint venture	49%	49%	49%
<b>Carrying amount of the Corporation's interest in the joint venture</b>	<b>14,443</b>	<b>13,167</b>	<b>13,311</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## Viger-Denonville, L.P.

### Summary Statements of Financial Position

As at	June 30, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	154	3,875	762
Other current assets	10,845	916	59
<b>Current assets</b>	<b>10,999</b>	<b>4,791</b>	<b>821</b>
Non-current assets	31,434	7,274	1,603
Accounts payable and other payables	639	17	48
Other current liabilities	13,468	183	—
<b>Current liabilities</b>	<b>14,107</b>	<b>200</b>	<b>48</b>
Non-current liabilities	3,042	328	—

### Summary Statements of Loss and Comprehensive Loss

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Revenue	—	—
Operating, general and administrative expenses	4	5
	(4)	(5)
Finance costs	—	—
Others net revenues	(897)	—
Depreciation and amortization	1	—
Unrealized net gain on derivative financial instruments	(1,888)	—
<b>Net earnings (loss) and comprehensive income (loss)</b>	<b>2,780</b>	<b>(5)</b>

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

As at	June 30, 2013	December 31, 2012	January 1, 2012
Net assets of the joint venture	25,284	11,537	2,376
Proportion of the Corporation's ownership interest in the joint venture	50%	50%	50%
<b>Carrying amount of the Corporation's interest in the joint venture</b>	<b>12,642</b>	<b>5,768</b>	<b>1,188</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 8. COMPUTATION OF EARNINGS AVAILABLE TO COMMON SHAREHOLDERS

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

	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Net earnings (loss) attributable to owners of the parent	28,302	(9,055)	31,099	(132)
Dividends declared on Preferred Shares	(1,781)	(1,063)	(3,828)	(2,125)
Net earnings (loss) available to common shareholders	26,521	(10,118)	27,271	(2,257)
Weighted average number of common shares (in 000)	94,370	81,282	94,142	81,282
Basic net earnings (loss) per share (\$)	0.28	(0.12)	0.29	(0.03)
Weighted average number of common shares (in 000)	94,370	81,282	94,142	81,282
Effect of dilutive elements on common shares (in 000) (a)	63	157	77	154
Diluted weighted average number of common shares (in 000)	94,433	81,439	94,219	81,436
Diluted net earnings (loss) per share (\$) (b)	0.28	(0.12)	0.29	(0.03)

- a. During the three-month period ended June 30, 2013, 2,073,420 of 2,736,684 stock options (1,034,000 of 2,677,444 as at June 30, 2012) and 7,558,684 shares which can be issued on conversion of convertible debentures (same as at June 30, 2012) were excluded from the calculation of diluted weighted average number of shares outstanding as the exercise price was above the average market price of common shares.

During the six-month period ended June 30, 2013, 1,263,000 of 2,736,684 stock options (1,034,000 of 2,677,444 as at June 30, 2012) and 7,558,684 shares which can be issued on conversion of convertible debentures (same as at June 30, 2012) were excluded from the calculation of diluted weighted average number of shares outstanding as the exercise price was above the average market price of common shares.

- b. During the three-month and six-month periods ended June 30, 2012, 1,643,444 of 2,677,444 stock options were excluded from the calculation of diluted net earnings (loss) as it was anti-dilutive due to a net loss available to common shareholders. Convertible Debentures were non-dilutive as the average market price of common shares was below the conversion price. A total of 7,558,684 common shares could potentially have been issued on conversion of the convertible debentures.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 9. PROPERTY, PLANT AND EQUIPMENT

	Land	Hydroelectric facilities	Wind farm facilities	Solar facility	Facilities under construction	Other equipments	Total
<b>Cost</b>							
As at January 1, 2013	2,105	920,369	370,819	124,133	140,901	6,126	1,564,453
Additions	18	253	1,770	100	54,372	385	56,898
Dispositions	—	—	—	—	—	(130)	(130)
Net foreign exchange differences	4	302	—	—	—	7	313
<b>As at June 30, 2013</b>	<b>2,127</b>	<b>920,924</b>	<b>372,589</b>	<b>124,233</b>	<b>195,273</b>	<b>6,388</b>	<b>1,621,534</b>
<b>Accumulated depreciation</b>							
As at January 1, 2013	—	(83,609)	(47,255)	(3,965)	—	(2,512)	(137,341)
Depreciation	—	(11,562)	(8,780)	(2,974)	—	(692)	(24,008)
Dispositions	—	—	—	—	—	87	87
Net foreign exchange differences	—	(89)	—	—	—	(2)	(91)
<b>As at June 30, 2013</b>	<b>—</b>	<b>(95,260)</b>	<b>(56,035)</b>	<b>(6,939)</b>	<b>—</b>	<b>(3,119)</b>	<b>(161,353)</b>
<b>Net value as at June 30, 2013</b>	<b>2,127</b>	<b>825,664</b>	<b>316,554</b>	<b>117,294</b>	<b>195,273</b>	<b>3,269</b>	<b>1,460,181</b>

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

Property, plant and equipment includes capitalized financing costs of \$17,210 as at June 30, 2013 (\$11,440 at December 31, 2012) incurred prior to their intended use.

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

The cost of facilities were reduced by investment tax credits of \$935 (\$472 as at December 31, 2012).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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## 10. LONG-TERM DEBT

### a. Revolving term credit facility

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

### b. Carleton

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

### c. Northwest Stave River

On May 23 2013, the Corporation closed a \$71,972 non-recourse construction and term project financing for the Northwest Stave River hydroelectric project currently under construction, located in British Columbia. The construction loan carries a fixed interest rate of 5.3%; it will convert in a 40-year term loan following the start of the project's commercial operating and will be amortized over a 35-year period starting in the sixth year. The loan is secured by Northwest Stave River L.P.'s assets with a carrying value of approximately \$94,200.

## 11. SHAREHOLDERS' CAPITAL

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

## 12. DIVIDENDS

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

Record date	Payment date	Dividends per common share (\$)	Dividend per Preferred Series A share (\$)	Dividend per Preferred Series C share (\$) <sup>1</sup>
12/31/2012	1/15/2013	0.1450	0.3125	—
3/28/2013	4/15/2013	0.1450	0.3125	0.492300
6/28/2013	7/15/2013	0.1450	0.3125	0.359375
		0.4350	0.9375	0.851675

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Accounts receivable and income tax receivable	8,621	(2,433)
Prepaid and others	(1,276)	(65)
Accounts payable, other payables and income tax liabilities	(7,056)	(769)
	289	(3,267)

### b. Additional information

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Interest paid (including \$3,230 capitalized interest (\$2,160 in 2012))	32,163	29,257
<i>Non-cash transactions</i>		
in unpaid property, plant and equipment	4,899	(1,289)
in unpaid development costs	880	—
in unpaid intangibles assets	(27)	—
in unpaid issuance costs of preferred shares	(353)	—
in unpaid financing fees	48	—
in common shares issued through dividend reinvestment plan	(7,702)	—

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 14. SUBSIDIARIES

### 14.1 General information of subsidiaries

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

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

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



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

Principal activity As at	Principal place of business	Number of subsidiaries	
		June 30, 2013	December 31, 2012
Own or operate hydroelectric facilities	Québec	5	5
	Ontario	4	4
	British Columbia	19	19
	United States	1	1
		29	29
Own or operate wind farm facilities	Québec	10	10
Own or operate a solar facility	Ontario	2	2
Develop or construct hydroelectric facilities	British Columbia	14	12
Holdings and others	Québec	8	6
	Ontario	3	2
	British Columbia	8	8
	United States	2	2
	Nova Scotia	2	2
		23	20
		78	73

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

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

Name of subsidiaries	Place of creation and operation	Proportion of ownership interests and voting rights held by non-controlling interest		Loss allocated to non-controlling interests for the six-month period ended		Accumulated non-controlling interests (deficit)	
		June 30, 2013	December 31, 2012	June 30, 2013	June 30, 2012	June 30, 2013	December 31, 2012
Harrison Hydro L.P. and its 8 subsidiaries	British Columbia	49.99%	49.99%	(85)	(942)	91,324	114,853
Creek Power Inc. and its 6 subsidiaries	British Columbia	33.33%	33.33%	(132)	(382)	(136)	(4)
Kwoiek Creek Resources, L.P. <sup>(1)</sup>	British Columbia	50.00%	50.00%	(3)	(2,604)	(7,131)	(7,128)
Others	Various	Various	Various	(18)	—	(128)	(110)

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

As at	June 30, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	30,312	69,089
Non-current assets	671,558	680,279
Current liabilities	13,994	16,588
Non-current liabilities	461,970	459,221
Equity attributable to owners	134,582	158,706
Non-controlling interests	91,324	114,853

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
<b>Summary Statements of Loss and Comprehensive Loss</b>		
Revenues	25,861	25,451
Expenses	(26,615)	(27,826)
Net loss and comprehensive loss	(754)	(2,375)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(669)	(1,433)
Non-controlling interests	(85)	(942)
	(754)	(2,375)
<b>Distributions paid to non-controlling interests</b>		
	23,444	—
<b>Summary Statements of Cash Flows</b>		
Net cash (outflow) inflow from operating activities	(6,415)	4,209
Net cash outflow from financing activities	(3,896)	(3,726)
Net cash inflow from investing activities	4,199	37,662
Net (decrease) increase in cash and cash equivalents	(6,112)	38,145

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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## Creek Power Inc. and its six subsidiaries

As at	June 30, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	1,234	1,358
Non-current assets	48,028	40,010
Current liabilities	10,912	8,987
Non-current liabilities	50,178	43,852
Deficit attributable to owners	(11,692)	(11,467)
Non-controlling interest deficit	(136)	(4)
<hr/>		
	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
<b>Summary Statements of Loss and Comprehensive Loss</b>		
Revenues	868	729
Expenses	(1,226)	(2,364)
Net loss and comprehensive loss	(358)	(1,635)
<hr/>		
Net loss and comprehensive loss attributable to:		
Owners of the parent	(226)	(1,253)
Non-controlling interest	(132)	(382)
	(358)	(1,635)
<hr/>		
<b>Summary Statements of Cash Flows</b>		
Net cash outflow from operating activities	(969)	(697)
Net cash inflow from financing activities	8,048	1,273
Net cash outflow from investing activities	(7,873)	(1,081)
Net decrease in cash and cash equivalents	(794)	(505)

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## Kwoiek Creek Resources L.P.

As at	June 30, 2013	December 31, 2012
<b>Summary Statements of Financial Position</b>		
Current assets	57,212	88,502
Non-current assets	156,517	113,796
Current liabilities	25,985	17,529
Non-current liabilities	202,404	199,424
Deficit attributable to owners	(7,529)	(7,527)
Non-controlling interest deficit	(7,131)	(7,128)
<b>Summary Statements of Loss and Comprehensive Loss</b>		
	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Revenues	—	—
Expenses	(5)	(5,204)
Net loss and comprehensive loss	(5)	(5,204)
Net loss and comprehensive loss attributable to:		
Owners of the parent	(2)	(2,600)
Non-controlling interest	(3)	(2,604)
	(5)	(5,204)
<b>Summary Statements of Cash Flows</b>		
Net cash inflow from operating activities	488	509
Net cash inflow from financing activities	2,980	28,485
Net cash outflow from investing activities	(2,545)	(28,225)
Net increase in cash and cash equivalents	923	769

### 14.3 Financial support to a structured entity

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

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

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

## 15. RELATED PARTY TRANSACTIONS

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

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

## 16. JOINT OPERATIONS

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

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

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## 17. SEGMENTED INFORMATION

### Geographic segments

The Corporation has 21 hydroelectric facilities, five wind farms and one solar farm in Canada and one hydroelectric facility in the United States. For the three-month and the six-month periods ended June 30, 2013, operating revenues generated by the Horseshoe Bend hydroelectric facility located in the United States totalled \$1,231 and \$1,474 (\$1,125 and \$1,551 in 2012), representing a contribution of 2.0% and 1.5% (2.1% and 1.9% in 2012) to the Corporation's consolidated operating revenues for these periods.

### Operating segments

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

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

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

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

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

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For the three-month period ended June 30, 2013					
Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Operating revenues	46,611	11,097	5,459	—	63,167
Expenses:					
Operating	5,567	2,403	289	—	8,259
General and administrative	1,795	615	53	461	2,924
Prospective project expenses	—	—	—	724	724
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net revenues, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	39,249	8,079	5,117	(1,185)	51,260
Finance costs					18,826
Other net revenues					2,958
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments					29,476
Depreciation					11,999
Amortization					5,453
Share of earnings of joint ventures					(3,832)
Unrealized net gain on derivative financial instruments					(27,318)
Earnings before incomes taxes					43,174

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For the three-month period ended June 30, 2012					
Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Operating revenues	41,932	9,034	3,394	—	54,360
Expenses:					
Operating	4,661	1,768	41	—	6,470
General and administrative	1,483	589	29	538	2,639
Prospective project expenses	—	—	—	647	647
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net revenues, share of loss of joint ventures and unrealized net loss on derivative financial instruments	35,788	6,677	3,324	(1,185)	44,604
Finance costs					18,194
Other net revenues					(822)
Earnings before income taxes, depreciation, amortization, share of loss of joint ventures and unrealized net loss on derivative financial instruments					27,232
Depreciation					10,373
Amortization					5,250
Share of loss of joint ventures					108
Unrealized net loss on derivative financial instruments					27,105
Loss before income taxes					(15,604)



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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<b>For the six-month period ended June 30, 2013</b>					
<b>Operating segments</b>	<b>Hydroelectric generation</b>	<b>Wind power generation</b>	<b>Solar power generation</b>	<b>Site development</b>	<b>Total</b>
Operating revenues	63,185	27,298	8,372	—	98,855
Expenses:					
Operating	9,644	4,473	600	—	14,717
General and administrative	3,643	1,210	171	902	5,926
Prospective project expenses	—	—	—	1,549	1,549
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net expenses, share of earnings of joint ventures and unrealized net gain on derivative financial instruments	49,898	21,615	7,601	(2,451)	76,663
Finance costs					31,778
Other net expenses					585
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net gain on derivative financial instruments					44,300
Depreciation					24,008
Amortization					10,905
Share of earnings of joint ventures					(3,706)
Unrealized net gain on derivative financial instruments					(31,156)
<b>Earnings before income taxes</b>					<b>44,249</b>
<b>As at June 30, 2013</b>					
Goodwill	8,269	—	—	—	8,269
Total assets	1,274,471	396,392	135,731	494,587	2,301,181
Total liabilities	797,289	383,584	137,890	310,350	1,629,113
Additions of property, plant and equipment	271	1,770	100	54,757	56,898

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For the six-month period ended June 30, 2012					
Operating segments	Hydroelectric generation	Wind power generation	Solar power generation	Site development	Total
Operating revenues	57,967	21,068	3,394	—	82,429
Expenses:					
Operating	8,386	3,707	41	—	12,134
General and administrative	2,833	1,385	29	1,425	5,672
Prospective project expenses	—	—	—	1,730	1,730
Earnings (loss) before finance costs, income taxes, depreciation, amortization, other net revenues, share of earnings of joint ventures and unrealized net loss on derivative financial instruments	46,748	15,976	3,324	(3,155)	62,893
Finance costs					32,130
Other net revenues					(1,421)
Earnings before income taxes, depreciation, amortization, share of earnings of joint ventures and unrealized net loss on derivative financial instruments					32,184
Depreciation					19,741
Amortization					10,439
Share of earnings of joint ventures					(594)
Unrealized net loss on derivative financial instruments					7,006
Loss before income taxes					(4,408)
<b>As at December 31, 2012</b>					
Goodwill	8,269	—	—	—	8,269
Total assets	1,281,758	423,634	139,222	451,826	2,296,440
Total liabilities	809,611	383,435	144,555	270,907	1,608,508
Additions of property, plant and equipment	612	3,682	153	169,449	173,896

## 18. SUBSEQUENT EVENTS

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

Date of announcement	Record date	Payment date	Dividends per common share (\$)	Dividends per Series A Preferred Share (\$)	Dividends per Series C Preferred Share (\$)
08/08/2013	09/30/2013	10/15/2013	0.1450	0.3125	0.359375

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## **b. Closing of Magpie acquisition**

On July 25, 2013 the Corporation completed the previously announced acquisition of the Magpie facility located in Quebec from Hydromega Group of Companies. Magpie is a 40.6 MW run-of-river hydroelectric facility located on Crown lands in the Minganie Regional County Municipality, in Northeastern Quebec. This facility began commercial operations in 2007, and all of the electricity it produces is sold to Hydro-Québec under a 25-year fixed-price power purchase agreement, which provides for an annual increase to the selling price of 1%. Magpie has an average annual production of approximately 185,000 MWh.

The Corporation has acquired 99.999% of the common units of the facility. However, the Minganie Regional County Municipality holds 30% of the voting units, as well as a convertible debenture with a nominal value of \$3,000 which carries an annual interest payment of approximately \$465 and a \$2,000 non-interest bearing debenture repayable over the next five years. The convertible debenture entitles the municipality to a 30% interest in the facility upon conversion of the debenture on January 1, 2025; once the non-interest bearing debenture has been repaid, the Corporation will have the option to trigger the conversion of this debenture at any time prior to this date.

The Corporation has paid the final purchase price of \$28,577 in cash and assumes project-level debt totaling \$55,438 which includes \$50,438 in non-recourse financing with blended monthly payments of approximately \$406 until 2017, and approximately \$379 hereafter until 2031, for a blended fixed interest rate of 6.35%, as well as the two debentures held by the Minganie Regional County Municipality mentioned above. These debts will be adjusted to fair value upon consolidation by the Corporation.

## **c. Closing of Viger-Denonville wind project financing**

On August 7, 2013, Viger-Denonville, L.P. closed a \$61,700 non-recourse construction and term project financing for the Viger-Denonville wind energy project, located in Quebec. The \$61,700 construction loan carries a floating interest rate at BA rate plus an applicable margin for an all-in rate of 3.82% as at August 7, 2013; following the start of the project's commercial operation, it will convert into an 18-year term loan. Viger-Denonville, L.P. has also closed a short-term loan of \$5,500 carrying a floating interest rate, to finance the construction of the substation and collector system, for which it is entitled to be reimbursed by Hydro-Québec in 2014.

Concurrent with the closing of the financing, Viger-Denonville, L.P. has settled the bond forward contracts used to hedge the interest rate on the debt and therefore protect the expected returns on the project, giving rise to a realized gain on derivative financial instruments of approximately \$2.2 million and partly offsetting the higher interest-rate on the project debt. Viger-Denonville, L.P. entered into an interest rate swap of \$58,520, maturing in 2031 and bearing an interest rate of 3.40%.

## **d. Changes to the Dividend Reinvestment Plan**

In view of current market conditions, the Corporation has elected to eliminate the 2.5% discount applicable to the purchase price of shares issued to shareholders participating in the Dividend Reinvestment Plan. This change came into effect on August 8, 2013.