



We power a clean future

2007 Annual Report



INNERGEX

Énergie renouvelable
Renewable Energy

Creating value from the power of water and wind

Projects at different stages of development, from their beginnings to their maturity

A network of industrial, community, aboriginal and financial partners

A versatile and experienced team

Welcome to the Innergex Renewable Energy's family!

Innergex Renewable Energy Inc. (TSX: INE) is a developer, owner and operator of hydroelectric facilities and wind energy projects in North America. Innergex Renewable Energy Inc.'s management team has been involved in the renewable power industry since 1990. The Corporation owns a portfolio of projects which consists of one operating facility (8 MW), interests in nine development projects with power purchase agreements under construction or to be constructed between 2008 and 2012 (gross expected capacity of 565 MW), and prospective projects (gross expected capacity of over 1,600 MW).

Innergex Renewable Energy Inc. owns 16.1% of the Innergex Power Income Fund, a publicly traded income fund listed on the Toronto Stock Exchange (IEF.UN), and act as its manager under long-term management agreements.

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Message to Shareholders

Dear Shareholders:

For over 17 years, we have developed and operated renewable energy generating projects that create value from the power of water and wind. We take care to develop this energy in a responsible manner and to respect the interests of all stakeholders: development partners, governments, communities and citizens, both current and future. Together, we can power a clean future.

Initial Public Offering

Innergex Renewable Energy Inc.'s ("Innergex" or the "Corporation") listing on the Toronto Stock Exchange on December 6, 2007 is a significant event in the Corporation's history. Formerly acting as manager, developer and operator of renewable energy facilities, the Corporation now also owns its projects.

Indeed, the proceeds from the Initial Public Offering raised sufficient capital to acquire the interests in Innergex II Income Fund not already owned by the Corporation and to bring to commercial status nine renewable energy projects for which power purchase agreements were secured. As manager and 16.1% owner of the Innergex Power Income Fund (the "Fund"), a trust that indirectly owns interests in 10 hydroelectric facilities and 2 wind farms, Innergex has stable revenues from the management of the Fund and a steady stream of monthly cash distributions.

With our recent success in securing new power purchase agreements and additional prospective projects, the route to becoming a public company was inevitable. With this newly acquired capital, we believe our capacity growth has dramatically improved. Our goal now is to share this future growth and wealth with our new shareholders.

Versatile Team

Investors in Innergex have been impressed with the experience of the management team. Our staff of more than 55 employees has multidisciplinary expertise, ranging from the development and operation of energy generating installations to corporate management. This depth and breadth of experience is key to our success. In addition, we have a strong network of renowned collaborators, and so are able to identify the best sites for our projects, reliably forecast their potential energy production, and build them on time and on budget.

Quality of the Projects

Investors have noted the quality of our hydroelectric and wind power projects. This high-level of quality makes a difference in obtaining power purchase agreements from provincial public utilities and getting the required support from Governments and communities.

Three projects are currently under construction: the 23 MW Umbata Falls hydroelectric project, the 109.5 MW Carleton wind project, and the 49.9 MW Ashlu Creek hydroelectric project. The construction of the Umbata Falls facility began in July 2006. The facility is expected to be commercially in-service in the third quarter of 2008. The site is located near Marathon, Ontario, and is developed in partnership with the Ojibways of the Pic River First Nation.



Turbine at Glen Miller hydroelectric facility



Construction at Umbata Falls hydroelectric facility



Wind turbine installation

In Québec, the construction of the Carleton wind farm began last fall with the site preparation and construction of access roads. The wind farm and its 73 wind turbines are expected to be producing in the fourth quarter of 2008.

In British Columbia, the construction of the Ashlu Creek hydroelectric project is well on its way. Construction works began in August 2006 and are expected to be completed in 2009. The Innergex team at our regional office in Vancouver is working hand in hand with local communities, engineering firms, contractors and workers to complete this facility.

This year, we will look forward to the commissioning of the Umbata Falls hydroelectric facility and the Carleton wind project. We also expect to start the construction of the 15 MW Matawin hydroelectric facility, the 49.9 MW Kwoiek Creek hydroelectric facility, and the 47.7 MW Mkw'Alts hydroelectric facility. These projects all have long-term power purchase agreements of 25, 40 and 20 years respectively. We also expect the 58.5 MW Montagne-Sèche wind project and the two phases of the 211.5 MW Gros-Morne wind power projects to continue their environmental assessment process.

Prospective Growth

Looking towards the future, our portfolio of prospective projects gives us confidence in our ability to achieve solid growth. We have submitted three wind power projects to Hydro-Québec Distribution's call for tenders last September, and the results are expected to be released in spring 2008. These projects represent an expected installed capacity of 322.5 MW and are located in three different regions: the Roussillon project on the South Shore of Montreal, the Massif-du-Sud project in the Chaudière-Appalaches region, and the Kamouraska project in the Lower St. Lawrence region. Our other prospective projects are being assessed and prepared for submission to future provincial utilities' call for tenders.

We are pleased to pursue with our new shareholders the vision of a responsible development of renewable energy projects.

We welcome our new shareholders and thank all of our partners, members of the Board and employees for their commitment to our vision.

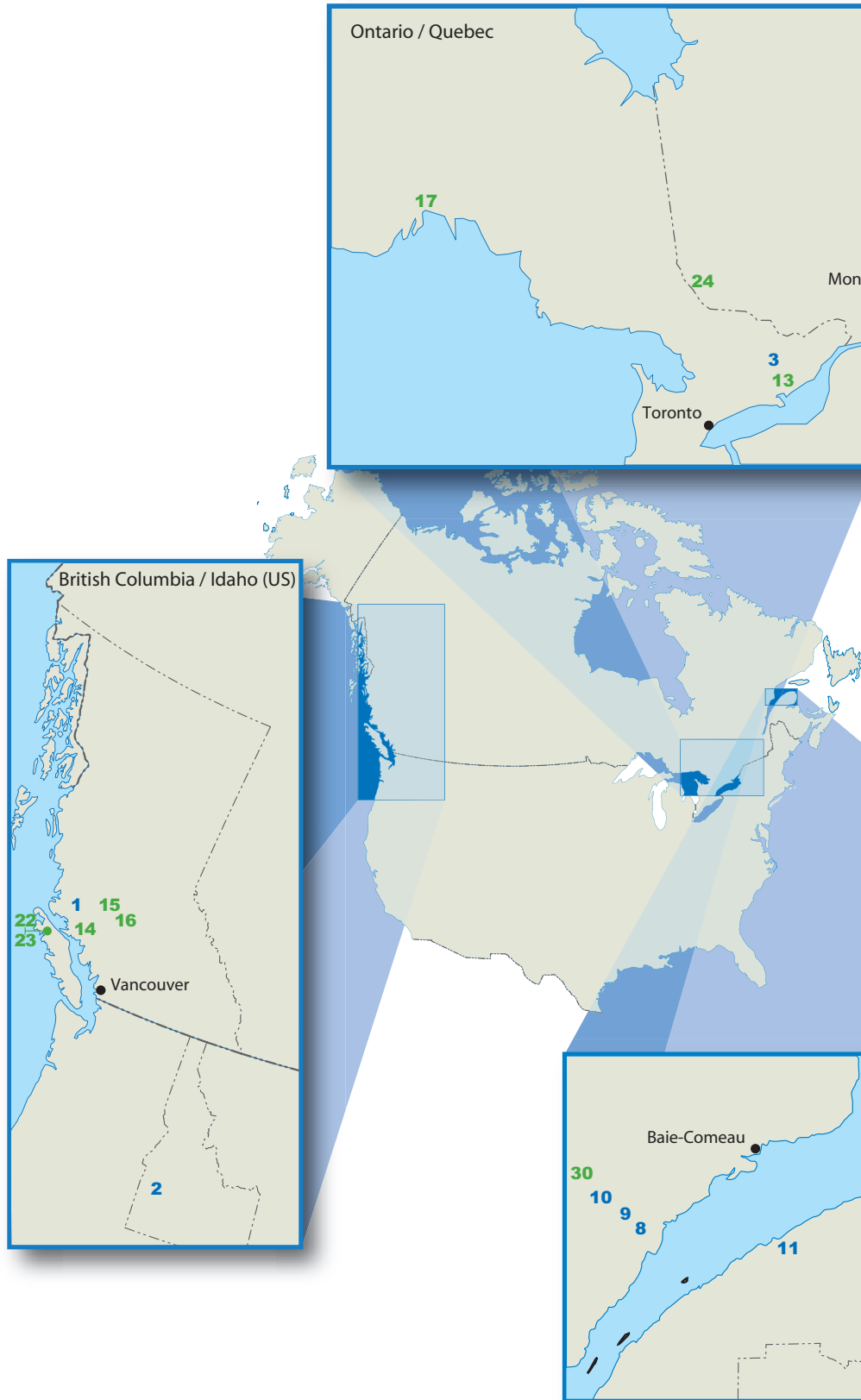
Michel Letellier, MBA
President and Chief Executive Officer

Gilles Lefrançois, CA
Executive Chairman of the Board of Directors

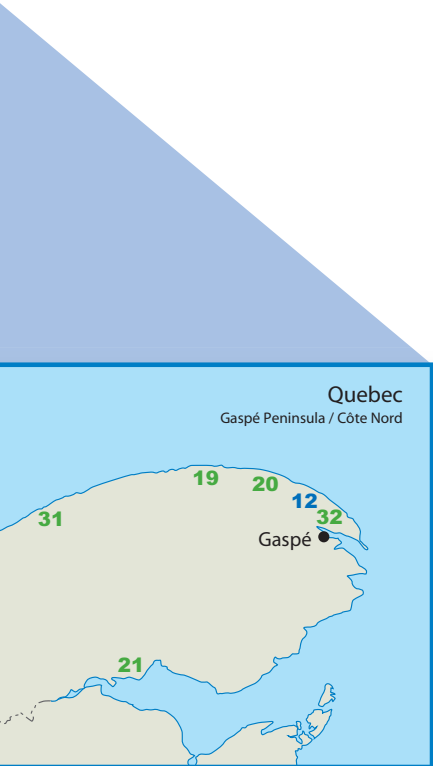
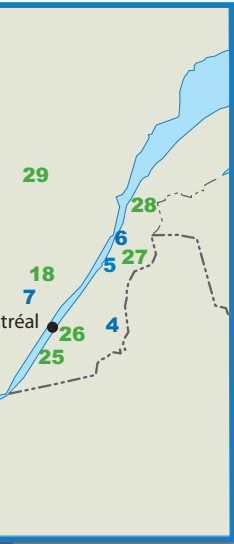
Innergex Power Income Fund's Projects

Operating Projects

- | | | |
|-----------|-------------------------------------------------------------------------------------|-----------------------------|
| 1 |  | Rutherford Creek
49.9 MW |
| 2 |  | Horseshoe Bend
9.5 MW |
| 3 |  | Batawa
5.0 MW |
| 4 |  | Windsor
5.5 MW |
| 5 |  | Chaudière
24.0 MW |
| 6 |  | Montmagny
2.1 MW |
| 7 |  | St-Paulin
8.0 MW |
| 8 |  | Portneuf 1
8.0 MW |
| 9 |  | Portneuf 2
9.9 MW |
| 10 |  | Portneuf 3
8.0 MW |
| 11 |  | Baie-des-Sables
109.5 MW |
| 12 |  | Anse-à-Valleau
100.5 MW |



Innergex Renewable Energy's Projects



Operating Projects

13  Glen Miller
8.0 MW

Prospective Projects

22  Kaipit
9.9 MW

23  Kokish
9.9 MW

Projects in Development

14  Ashlu Creek
49.9 MW


24  Kipawa
42.0 MW


15  Mkw'Alts
47.7 MW

25  Roussillon
108.0 MW


16  Kwoiek Creek
49.9 MW


26  St-Constant
70.0 MW


17  Umbata Falls
23.0 MW

27  Massif-du-Sud
90.0 MW


18  Matawin
15.0 MW

28  Kamouraska
124.5 MW

19  Montagne-Sèche
58.5 MW


29  Club des Hauteurs
195.5 MW

20  Gros Morne I and II
211.5 MW

30  Haute-Côte-Nord
Est / Ouest
338.0 MW

21  Carleton
109.5 MW

31  Les Méchins
150.0 MW

32  Rivière-au-Renard
25.0 MW

* Other sites
(British Columbia) – 475.0 MW

Board of Directors

GILLES LEFRANÇOIS, CA
Longueuil, Québec, Canada
Executive Chairman of the Board of Directors

MICHEL LETELLIER, MBA
Candiac, Québec, Canada
President and Chief Executive Officer and Director

WILLIAM A. LAMBERT, MBA
Toronto, Ontario, Canada
Director ^{1),3)}

CYRILLE VITTECOQ, CFA
Montréal, Québec, Canada
Director ^{1),4)}

RAYMOND LAURIN, CA
Lévis, Québec, Canada
Director ^{1),2)}

PIERRE BRODEUR
Saint-Bruno, Québec, Canada
Director ^{1),2),5)}

SUSAN M. SMITH, MBA
Toronto, Ontario, Canada
Director ^{1),3)}

¹⁾ "Independent" within the meaning of Multilateral Instrument 52-110 of the Canadian Securities Administrators.

²⁾ Member of the Audit Committee.

³⁾ Member of the Compensation, Corporate Governance and Nominating Committee.

⁴⁾ Chairman of the Audit Committee.

⁵⁾ Chairman of the Compensation, Corporate Governance and Nominating Committee.

Management

GILLES LEFRANÇOIS, CA
Longueuil, Québec, Canada
Executive Chairman of the Board of Directors

MICHEL LETELLIER, MBA
Candiac, Québec, Canada
President and Chief Executive Officer and Director

JEAN PERRON, CA, CMA
Saint-Hubert, Québec, Canada
Vice President and Chief Financial Officer

MICHÈLE BEAUCHAMP, LL.B, LL.M
Lachine, Québec, Canada
Vice President – Legal Affairs and Corporate Secretary

RICHARD BLANCHET, P.Eng., M.Sc.
North Vancouver, British Columbia, Canada
Vice President Western Region – Hydroelectric Energy

NORMAND BOUCHARD, Eng.
Ile Bizard, Québec, Canada
Vice President – Wind Energy

RENAUD DE BATZ, Geologist, M.Sc., MBA
Beaconsfield, Québec, Canada
Vice President Eastern Region – Hydroelectric Energy

GUY DUFORT
Saint-Romuald, Québec, Canada
Vice President – Public Affairs

PETER GROVER, Eng.
Saint-Bruno, Québec, Canada
Vice President – Project Management

FRANÇOIS HÉBERT
Saint-Alphonse-de-Granby, Québec, Canada
Vice President – Operation and Maintenance

JEAN TRUDEL, MBA
Montréal, Québec, Canada
Vice President – Finance and Investor Relations

Management's Discussion and Analysis

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") has been prepared as of March 27, 2008.

The purpose of this MD&A is to provide the reader with an overview of the financial position, operating results, and cash flows of Innergex Renewable Energy Inc. ("Innergex" or the "Corporation") for the twelve-month financial year ended December 31, 2007. This MD&A should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the financial year ended December 31, 2007. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Corporation reports its results in Canadian dollars. Certain amounts included in this MD&A are rounded, to make reading easier. These rounded numbers may affect certain sums.

EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES OF FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation, including its consolidated subsidiaries, is made known to the President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation by others within those entities, particularly during the period in which the annual filings are being prepared.

In accordance with *Multilateral Instrument 52-109 certification of disclosure in issuers' annual and interim filings*, the President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation have evaluated the effectiveness of the Corporation's disclosure procedures of financial reporting as of the year ended December 31, 2007. They have concluded that the Corporation's disclosure controls procedures provides reasonable assurance that (i) the information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods; and, (ii) material information regarding the Corporation is gathered and communicated to the President and Chief Executive Officer and the Vice President and Chief Financial Officer in a timely manner so that they can provide investors with complete and reliable information.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice President and Chief Financial Officer of the Corporation designed internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There was no change in the Corporation's internal controls over financial reporting during the most recent period that have materially affected, or are reasonably likely to materially affect the Corporation's internal controls.

FORWARD-LOOKING STATEMENTS

In the interest of providing shareholders and potential investors with information regarding the Corporation's future perspectives, this MD&A's headings could contain forward-looking statements, within the meaning of securities legislation. These forward-looking statements express, as at the date of this MD&A, evaluations, forecasts, projections, expectations or opinions of the Corporation regarding future events or results. These forward-looking statements are subject to risks, uncertainties, and other important factors that could cause the Corporation's actual performance to differ materially from that expressed in, or implied by, such forward-looking statements. Important risks and uncertainties that could cause the actual results and future events to differ materially from the expressed current expectations are discussed under *Risk and Uncertainties* of this MD&A and in the section *Risk Factors* in the Corporation's Annual Information Form for the year ended December 31, 2007. Although the Corporation believes that the expectations conveyed by these forward-looking statements are based on valid and reasonable motives and hypotheses, there is a risk that these forward-looking statements may prove to be inaccurate. Readers of this MD&A are hereby warned not to rely unduly on these forward-looking statements. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or to a person acting on its behalf, are expressly qualified in their entirety by these cautionary statements. The Corporation does not intend to update or revise these forward-looking statements to consider events or circumstances that take place after the date of this MD&A, or after unexpected events, unless required by law.

OVERVIEW

General

The Corporation was incorporated under the name Innergex Management Inc. on October 25, 2002 under the laws of Canada to provide management and administrative services to Innergex Power Income Fund (the "Fund") and Innergex II Income Fund ("Innergex II") and their subsidiaries under long-term agreements. The Corporation also held a 15% equity interest in Innergex II. The Fund is an income trust listed on the Toronto Stock Exchange ("TSX") under the ticker IEF.UN that owns 10 hydroelectric facilities and 2 wind farms with an aggregate net installed capacity of 197 MW (gross 340 MW). Innergex II is a private trust created in 2001 and restricted to owning, building, developing, operating and/or acquiring assets or businesses focussed on power generation. On October 25, 2007, the Corporation changed its name to Innergex Renewable Energy Inc., and on December 6, 2007 completed its Initial Public Offering ("IPO"). Concurrently with the closing of its IPO, the Corporation acquired the remaining equity interest it did not already own in Innergex II.

Today, the Corporation still provides management and administrative services and is an independent developer and operator of renewable power generating facilities. The Corporation is one of the most active in the Canadian renewable power industry with a focus on hydroelectric and wind power projects which benefit from low operating and management costs and simple and proven technology. The Corporation's management team has been active in the renewable power industry since 1990 and has developed and brought to commercial operation or refurbished, through different ventures, 11 hydroelectric and two wind power facilities, representing an aggregate installed capacity of 348 MW.

The Corporation owns: i) one 8 MW hydroelectric facility currently in operation; ii) nine projects with an aggregate net installed capacity of 293 MW (gross 565 MW) of power generating capacity for which power purchase agreements ("PPA") with public utilities have been secured. Of these projects, three are currently under construction and six are expected to be under construction over the next five years. The projects are anticipated to reach commercial operation between 2008 and 2012; iii) more than 1,600 MW of Prospective Projects which are at different stages of development; and, iv) a direct 16.1% interest in the Fund.

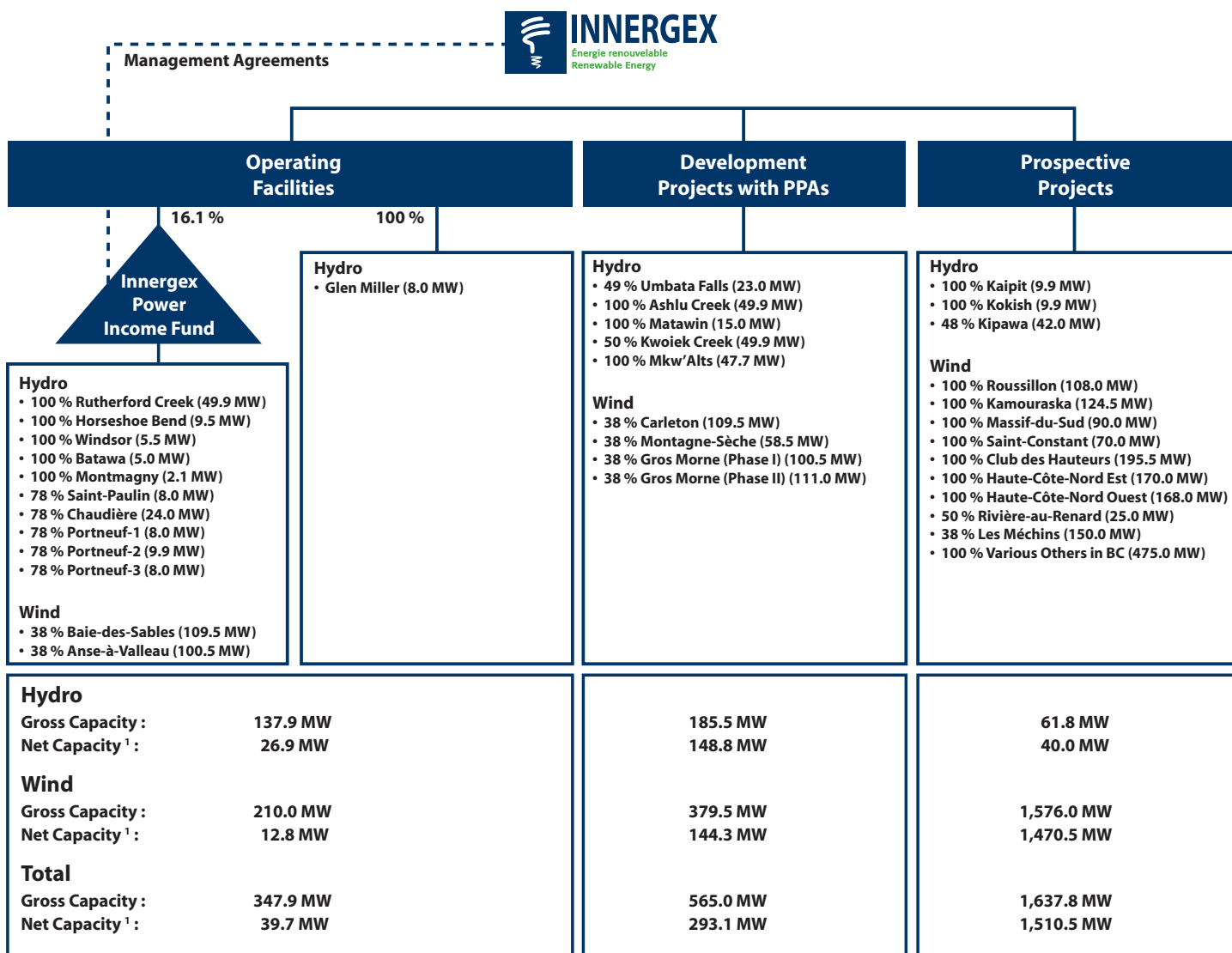
The Corporation's cash flow sources are diversified. Firstly, as owner of an 8-MW hydroelectric facility, the Corporation receives revenues from the electricity generated from this facility. Secondly, as the owner of a 16.1% interest in the Fund, the Corporation receives stable monthly cash distributions. Thirdly, as manager of the Fund, the Corporation receives annual management fees and incentive fees. Finally, as a developer of renewable energy facilities, the Corporation expects its revenues from electricity generation to increase in years to come as the pipeline of projects under development reaches commercial operation.

Management's Discussion and Analysis

Portfolio of Assets

The Corporation's portfolio is comprised of interests in three groups of power generating projects: (i) facilities that have reached commercial operation (the "Operating Facilities"); (ii) projects for which PPAs have been secured and are either under construction or have planned dates for commencement of commercial operations (the "Development Projects with PPAs"); and, (iii) projects that have secured certain land rights, for which an application for an investigative permit has been filed or with respect to which a proposal has been submitted under a Request For Proposal ("RFP") (the "Prospective Projects"). The Corporation's portfolio of projects consists of interests in 13 Operating Facilities, nine Development Projects with PPAs and Prospective Projects.

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



¹ Net capacity represents the proportional share of the total capacity attributable to the Corporation based on its ownership interest in these facilities and projects, with the remaining capacity being attributable to the ownership of strategic partners.

Management's Discussion and Analysis

Operating Facilities

The Corporation's interests in the 13 Operating Facilities consist of a 100% interest in the Glen Miller facility and interests in the 12 other Operating Facilities held through its 16.1% direct interest in the Fund.

1. Glen Miller Facility

The Glen Miller facility is an 8 MW run-of-river hydroelectric facility located on the Trent River in Trenton, Ontario, at the site of a paper mill with an estimated yearly energy output of 41,606 MW-hr. Construction of the Glen Miller facility commenced in January 2004 and was completed in December 2005. The Glen Miller facility has a PPA with the Ontario Power Authority ("OPA") with respect to all the power produced by the Glen Miller facility during the 20 years following December 19, 2005. On January 1st of each year, a portion equal to 15% of the price of electricity purchased under the Glen Miller PPA is indexed to the percentage of increase or decrease of the consumer price index ("CPI"). The price of electricity delivered to OPA was \$66.67 per MW-hr in 2007. The Corporation owns 100% of this project.

2. 16.1% Interest in the Innergex Power Income Fund

Innergex Power Income Fund is an open-ended income trust that indirectly owns interests in ten hydroelectric power generating facilities and two wind farms with a total installed capacity of 340 MW (net interest of 197 MW). The Fund's units are traded on the Toronto Stock Exchange under the symbol IEF.UN. The hydroelectric facilities and the wind farms are managed by the Corporation, as manager, under long-term agreements with the Fund.

All the power generating facilities related to the Fund sell their power under long-term PPAs with creditworthy public utilities. The weighted average age of the facilities is approximately five years and the capacity weighted average remaining life of the PPAs is 16.7 years without considering renewal features. The Corporation owns 4,724,409 units or approximately 16.1% of the outstanding units of the Fund. The Fund's actual distribution policy is to distribute \$1.00 per trust unit per year to its unitholders, starting on January 1, 2008.

Additional information about the Fund's facilities can be found on SEDAR at www.sedar.com.

Development Projects with PPAs

1. Umbata Falls Project

The Umbata Falls project is a run-of-river hydroelectric power generating facility currently under construction with a planned installed capacity of 23 MW and an estimated yearly energy output of 109,102 MW-hr. It is located on the White River, a tributary to Lake Superior, approximately 30 kilometres southeast of Marathon, Ontario. Construction of the Umbata Falls project started in June 2006 and it is expected to commence commercial operations in the third quarter of 2008. The Umbata Falls project has a PPA with the OPA with respect to all the power that will be produced during the 20 years following the commencement of commercial operations. The price for electricity generated by the project established at the time of execution of the PPA was slightly over \$73.00 per MW-hr. On January 1st of each year during the term of the PPA, a portion equal to 15% of the price of electricity purchased under the PPA is indexed to the percentage of increase or decrease of the CPI. The Corporation has a 49% interest in this project.

2. Carleton Project

The Carleton project is a wind power facility presently under construction in the Town of Carleton-sur-Mer and the Regional County Municipality of Bonaventure, Québec. It has a planned installed capacity of 109.5 MW and an estimated yearly energy output of 340,523 MW-hr. Construction of the Carleton project started in October 2007 and it is expected to commence commercial operations in the last quarter of 2008. The Carleton project has a PPA with Hydro-Québec with respect to all the electricity that will be produced by the project, expiring 20 years after the commencement of commercial operations. The price of the delivered electricity payable by Hydro-Québec is determined pursuant to a formula set forth in the PPA, which is based on the price as at January 1, 2004, being an amount of \$73.32 per MW-hr, and adjusted annually in accordance with the CPI and certain factors specified therein. The Corporation has a 38% interest in this project.

3. Ashlu Creek Project

The Ashlu Creek project is a run-of-river hydroelectric power generating facility currently under construction with an expected nameplate capacity of 49.9 MW and an estimated yearly energy output of 265,000 MW-hr. It is located on Ashlu Creek, a tributary to the Squamish River, approximately 35 kilometres northwest of Squamish, British Columbia. Construction of the Ashlu Creek project started in August 2006 and it is expected to commence commercial operations in 2009. The Ashlu Creek project has a PPA with BC Hydro, with respect to all the power that will be produced by the project, expiring 30 years following the commencement of commercial operations. The price of electricity is \$56.36 per MW-hr and is to be adjusted by a percentage equal to 50% of the increase or decrease in the CPI during the preceding 12 months starting on January 1, 2005 and on each January 1 thereafter during the term of the PPA. The Corporation owns 100% of this project.

Management's Discussion and Analysis

4. Matawin Project

The Matawin project is a hydroelectric power generating facility with an expected installed capacity of 15 MW and an estimated yearly energy output of 62,529 MW-hr. It is located on the Matawin River, a tributary of the Saint-Maurice River, in Québec. Construction of the Matawin project is expected to start in the second quarter of 2008 and it is expected to commence commercial operations in 2009. The Corporation was selected pursuant to a RFP issued jointly by Hydro-Québec and the Ministère des Ressources naturelles in 2002. The Corporation is currently finalizing with Hydro-Québec the standard form of PPA under this RFP for an expected 25-year term following the date of commencement of commercial operations. The price for electricity generated by the project was \$39.40 per MW-hr at the time the Corporation submitted its bid. The power produced is indexed by 0.6% annually following the date of commencement of commercial operation. The Corporation owns 100% of this project.

5. Kwoiek Creek Project

The Kwoiek Creek project is a run-of-river hydroelectric power generating facility with an expected nameplate capacity of 49.9 MW and an estimated yearly energy output of 215,000 MW-hr. It is located at the confluence of the Kwoiek Creek with the Fraser River, approximately 14 kilometres south of Lytton, British Columbia. Construction of the Kwoiek Creek project is expected to start in the second quarter of 2008 and it is expected to commence commercial operations in 2010. The Kwoiek Creek project has a PPA with BC Hydro with respect to all the power that will be produced by the Kwoiek Creek project, expiring 40 years following the commercial in-service date of the facility. The price of electricity delivered pursuant to the PPA is \$81.68 per MW-hr. A portion equal to 30% of the price of electricity is to be adjusted according to the increase or decrease in the CPI during the preceding 12 months starting on January 1, 2006 and on each January 1 thereafter during the term of the PPA. The Corporation owns 50% of the Kwoiek Creek project.

6. Mkw'Alts Project

The Mkw'Alts project is a run-of-river hydroelectric power generating facility with an expected nameplate capacity of 47.7 MW and an estimated yearly energy output of 156,000 MW-hr. It is located on Ure Creek, a tributary to Lillooet Lake, approximately 11 kilometres south of the village of Mount Currie, British Columbia. Construction of the Mkw'Alts project is expected to start in the third quarter of 2008 and it is expected to commence commercial operations in 2010. The Mkw'Alts project has a PPA with BC Hydro with respect to all of the power that will be produced by the project, expiring 20 years following its commencement of commercial operations. The price of electricity is to be adjusted by a percentage equal to 50% of the increase or decrease in the CPI during the preceding 12 months starting on January 1, 2004 and on each January 1 thereafter during the term of the PPA. As at January 1st, 2004, the total price of electricity sold pursuant to the PPA is \$57.26 per MW-hr. The Corporation owns 100% of this project.

7. Montagne-Sèche Project

The Montagne-Sèche project is a wind power facility located in the Municipality of the Canton of Cloridorme, Québec. It has a planned installed capacity of 58.5 MW and an expected yearly energy output of 182,743 MW-hr. The Montagne-Sèche project is expected to commence commercial operations in 2011. The Montagne-Sèche project has a PPA with Hydro-Québec with respect to all electricity that will be produced by the project, expiring 20 years after the commencement of commercial operations. The price of the delivered electricity payable by Hydro-Québec is determined pursuant to a formula set forth in the PPA, which is based on the price as at January 1, 2004, being an amount of \$68.80 per MW-hr, and adjusted annually in accordance with the CPI and certain factors specified therein. The Corporation has a 38% interest in this project.

8. Gros Morne Project – Phase I

The Gros Morne Phase I project is a wind power facility located in the Municipality of Mont-Louis and the Municipality of Sainte-Madeleine-de-la-Rivière-Madeleine, Québec. The Gros Morne Phase I project has a planned installed capacity of 100.5 MW and an expected yearly energy output of 312,535 MW-hr per year. It is expected that the Gros Morne Phase I project will commence commercial operations in 2011. The Gros Morne Phase I and Phase II projects have the same PPA with Hydro-Québec with respect to all electricity that will be produced by the project, expiring 21 years after the commencement of commercial operations. The price of the delivered electricity payable by Hydro-Québec pursuant to the Gros Morne Phase I and Phase II project PPA was established at \$65.58 per MW-hr as at January 1, 2004 and is adjusted in accordance with CPI and certain other factors provided in such PPA. The Corporation has a 38% interest in the project.

9. Gros Morne Project – Phase II

The Gros Morne Phase II project is a wind power facility located in the Municipality of Mont-Louis and the Municipality of Sainte-Madeleine-de-la-Rivière-Madeleine, Québec. The Gros Morne Phase II project has a planned installed capacity of 111.0 MW and an expected yearly energy output of 345,188 MW-hr per year. It is expected that the Gros Morne Phase II will commence commercial operations in 2012. The Gros Morne Phase I and Phase II projects have the same PPA with Hydro-Québec with respect to all electricity that will be produced by the project, expiring 21 years after the commencement of commercial operations of the Gros Morne Phase I project. The price of the delivered electricity payable by Hydro-Québec pursuant to the Gros Morne Phase I and II projects PPA was established at \$65.58 per MW-hr as at January 1, 2004 and is adjusted in accordance with CPI and certain other factors provided in such PPA and is further adjusted for the Gros Morne Phase II project. The Corporation has a 38% interest in the project.

Prospective Projects

All of the Prospective Projects, totalling a potential installed capacity of over 1,600 MW, are in a preliminary stage of development. Some of the Prospective Projects, namely the Roussillon, the Kamouraska and the Massif-du-Sud wind projects totalling 322.5 MW, have been bid for pursuant to the Québec 2,000 MW Wind RFP, some are targeted towards specific future RFPs, and 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 can be found in the Corporation's Annual Information Form for the year ended December 31, 2007 filed on www.sedar.com.

Business Strategy

The Corporation's strategy for building shareholder value is to develop or acquire high quality power generation facilities that generate sustainable and increasing cash flows, with the objective of achieving a high return on invested capital. As an independent clean power producer, the Corporation aims at generating value from renewable energy sources.

Strategic Relationships

The Corporation often teams up with a strategic partner when bidding for projects under an RFP. When this is the case, the Corporation and the strategic partner share the ownership of such projects. Current partners are TransCanada Energy Ltd. (owner of 62% of the Cartier Wind Projects), the Kanaka Bar Indian Band (owner of 50% of the Kwoiek Creek Project) and the Ojibways of the Pic River First Nations (owner of 51% of the Umbata Falls Project). The Corporation's expected capacity measured on an ownership weighted basis represents 293 MW out of the 565 MW capacity of its Development Projects with PPAs and 1,511 MW out of more than 1,600 MW capacity of its Prospective Projects.

Areas of Growth

The Corporation is confident that future RFP opportunities will continue to arise, especially in Québec, British Columbia and Ontario, as these provinces continue to increase their targets for renewable power generation. The Corporation has historically been focused on bidding on RFPs issued in these three provinces where it has experienced a high level of success. The Corporation has submitted bids for 322.5 MW in the Québec 2,000 MW RFP, the awards of which are expected to be announced in the spring of 2008. The Corporation also intends to submit bids in the recently announced Québec Municipal Wind RFP.

In British Columbia, the Corporation intends to bid for the 9.9 MW Kaipit Project and the 9.9 MW Kokish Project pursuant to BC Hydro's Standard Offer Program for clean power projects with a nameplate capacity of less than 10 MW. The Corporation also intends to participate in BC Hydro's RFP for clean power which is expected to be issued in the fall of 2008 and winter 2009 with a target of approximately 5,000 GWh, representing 1,250 MW (assuming an average capacity rate of 45% for the various clean energy sources).

The Corporation intends to be more active in responding to RFPs in Ontario, where the Corporation's management has brought two facilities to commercial operation and is currently constructing a third.

The Corporation is also focused on expanding its development of wind power projects into the United States. The United States is currently the third largest producer of wind power in the world, hosting 15.6% of the world's capacity with 11,575 MW of installed capacity. This industry is expanding rapidly with new installations boosting the country's wind power generating capacity by 45% in 2007. The Corporation's management team views the U.S. environment as a very attractive market and will continue to assess opportunities in this market.

Management's Discussion and Analysis

Diversification

The Corporation may also expand through the acquisition of prospective projects which are at different stages of development or suitable power assets that have already reached commercial operation. As a public company, the Corporation will be able to use its equity to finance potential acquisitions. As it has done in the past, the Corporation will continue to focus on hydroelectric and wind power generation facilities, although the Corporation may seek to grow through expansion into other forms of renewable energy production, including solar and geothermal power, if profitable opportunities in those sectors arise for the Corporation. Future projects may be located in any region where profitable opportunities exist, although the Corporation expects such projects will mostly be located in Canada and the United States. While the Corporation intends to continue to focus upon the sale of power through long-term PPAs, it may also consider entering into the merchant wholesale power market if profitable opportunities are identified.

Key Growth Factors

The key factors which will affect growth of the Corporation in the future will be: i) the demand for renewable energy by the population and governments; ii) the Corporation's capacity to evaluate and secure the best prospective sites for the development of new projects in cooperation with local communities; iii) the Corporation's ability to enter into attractive PPAs and obtain required environmental and other permits; and iv) the Corporation's ability to forecast adequately the total construction costs, expected revenues and expected expenses for each of its projects. With the threat of global warming and the growing recognition and support by governments for the need to protect the environment, the Corporation believes that the future of the renewable energy industry is promising.

Capacity to Deliver Results

Evolving within a competitive sector, the Corporation's best asset is the experience and dedication of its management team. The Corporation's management team has a proven track record of completing projects by the commencement date of commercial operations provided in its PPAs and of not incurring any significant cost overruns due to its careful management of the construction process. The Corporation has approximately 59 employees (including 14 employees of the Fund which are under the supervision of the Corporation pursuant to the Management Agreements). This workforce includes 18 employees in operations and maintenance, 11 employees in development and construction and 21 employees in finance and legal. The Corporation's employees have the specialized knowledge and skills to carry out its business. The Corporation can count on a network of technical, financial, legal partners and has a proven ability to complement its internal capacity with an efficient use of external consultants, when required. In addition, the Corporation uses the services of several independent engineering firms to assist it with the feasibility analysis of its projects.

Market Trends

Renewable power producers are involved in the generation of electricity from renewable sources of energy including (i) water; (ii) wind; (iii) certain waste products, such as biomass (e.g., waste wood from forest products operations) and landfill gas; (iv) geothermal sources, such as heat or steam; and (v) the sun. While traditional regulated utilities continue to dominate the North American electricity generation markets, it is recognized that independent power producers will play an increasingly important role in the supply of electricity needs in the future. In recent years, governmental authorities and other policymakers have increasingly recognized the benefits of power generated by independent power producers.

The trend towards increased reliance on independent power producers for the supply of renewable power in North America is fuelled by a number of initiatives, including (i) the increase in government-sponsored incentives, (ii) the availability of long-term contracts for the purchase of renewable energy with highly creditworthy counterparties, allowing independent power producers to develop new projects in a low-risk environment with the expectation of long-term stable contractual cash flows, (iii) the implementation of non-discriminatory access to transmission systems, providing independent power producers access to regional electricity markets, and (iv) the efficiency of independent power producers.

Renewable Power in Canada

Significant recent growth in renewable power generation in Canada has been influenced by rising electricity prices, certain competitive provincial markets, rising fossil fuel prices, increased costs of large-scale hydroelectric sites, public concern over nuclear power generation, air quality and greenhouse gases, improvements in renewable energy technologies and shorter construction lead times for certain renewable projects. Renewable electricity generation in Canada is also supported by federal and provincial incentives such as production tax credits, accelerated depreciation and Renewable Portfolio Standards ("RPS"). Several provinces are also making the necessary transmission grid investments and are focusing on conservation and demand reduction.

Canada's hydrological resources are abundant and unique in the world. Despite the competition for appropriate sites and the challenges associated with long transmission distances, the low operational costs and long project lives of these facilities suggest hydroelectric power generation will continue to be a major affordable base-load supply source for some time. Transmission corridors in Canada have traditionally run directly from major generation facilities to major demand centres, meaning that strategic investments in new transmission will play an important role in the development of large hydroelectric projects and other isolated renewable energy generation projects.

Management's Discussion and Analysis

The National Energy Board reports that wind power generation in Canada has reached a stage of commercial development and is now the fastest growing source of renewable energy in the country. According to the Canadian Wind Energy Association, approximately 1,600 MW of wind power capacity has been installed to date. Installed wind power capacity in Canada has increased substantially in each of the last three years, due largely to provincial RPSs, relatively short construction timelines, good wind resources, including vast shorelines and strong winds throughout a wide range of rural areas, and numerous RFPs for renewable energy. The customary challenges of resource availability and transmission exist in Canada and in certain areas access to transmission lines with available capacity is an economic or regulatory consideration. Nevertheless, the Canadian Wind Energy Association has proposed a target for the construction of 7,000 MW of wind generation capacity by 2013.

Natural Resources Canada reports that total generating capacity in Canada is anticipated to grow from 113,000 MW in 2005 to 131,000 MW by 2020. A significant portion of this 18,000 MW of additional capacity, in addition to the capacity required to replace the capacity of non-renewable energy generating facilities to be decommissioned during that period, is expected to come from renewable power sources.

In response to the long-term trend toward stronger policies for protecting the environment, many provincial governments have introduced RPSs, which are generally being applied and implemented as goals or targets rather than mandatory requirements. These RPSs typically reflect the distinct resource issues associated with electricity generation within that particular provincial electricity industry structure and geography. RPSs typically set a target for an increased component of renewable generation in the electricity generation supply mix in order to reduce greenhouse gas emissions over time. In order to meet these targets, RFPs have been developed by provincial authorities or their utilities to source renewable generation resources and, in some cases, offer PPAs through competitive bidding processes. The competitive bidding process seeks to ensure that the RPSs are achieved at the lowest possible cost and with the highest probability of project completion. Standard Offer Programs have also been employed or planned in some provinces as a mechanism to allow smaller projects to contribute meeting the renewable generation goals by simplifying the negotiation and financing process and decreasing the transactional costs of obtaining a relatively small but long-term and certain PPA.

Several provinces have recently released, or are currently preparing, significant new RFPs or Standard Offer Programs with the objective of procuring additional installed electricity generation capacity from renewable sources. Through provincial RPSs, several provinces have targeted a percentage of electricity to be generated from renewable sources. The current provincial targets for clean or renewable energy in their supply mix include: British Columbia requiring renewables or clean energy to continue to account for at least 90% of total generation; Saskatchewan requiring 50% by 2025; Nova Scotia requiring 20% by 2013; PEI requiring 30% by 2016; Ontario requiring 10% to be contracted for by 2010; and Québec seeking 4,000 MW of installed wind generation capacity by 2015.

Global Performance

Initial Public Offering ("IPO")

Shares of Innergex Renewable Energy Inc. began trading on the Toronto Stock Exchange ("TSX") under the ticker INE on December 6, 2007. A prospectus filed on November 28, 2007 qualified the distribution by the Corporation of 10,455,000 common shares for total gross proceeds of \$115.0 million. Together with the issuance of 5,760,379 additional common shares to the former shareholders (the "Institutional Investors") of Innergex II, the proceeds from the initial public offering were essentially used to acquire Innergex II and all of its assets and projects under development, and to repay outstanding indebtedness owed by Innergex II to the Institutional Investors. Concurrently with the closing of the offering, the Institutional Investors in Innergex II used part of the proceeds from the repayment of indebtedness and invested into the Corporation by subscribing for 5,342,620 additional common shares. All such 11,102,999 common shares issued to the Institutional Investors were issued on a private placement basis. The exercise of part of the over-allotment option granted to the underwriters resulted in the Institutional Investors selling 470,000 common shares to the public. Common shares sold pursuant to the exercise of the over-allotment option were also qualified by the prospectus.

After giving effect to the offering, the concurrent re-investment and the over-allotment option, a total of 23,500,000 common shares is outstanding and the Institutional Investors own 45.2% of these outstanding shares while management owns approximately 8.3%.

Immediately before the closing of the offering, Innergex II sold to the Fund its interests in two wind farms. The Fund satisfied the purchase price payable to Innergex II by the issuance of 4,724,409 trust units of the Fund to Innergex II and by assuming debts related to the wind farms. As a result of this transaction, the Corporation, which acquired Innergex II, now holds 16.1% of the outstanding units of the Fund which itself owns interests in 10 hydroelectric facilities and two wind farms having an aggregate installed capacity of 340 MW.

Consequently, the Corporation's financial statements for the year ended December 31, 2007 incorporate the transactions mentioned above and consolidate the results of Innergex II for the last 26 days of the year. These financial statements are compared to the Corporation's financial statements for the year 2006. It is important to note that, prior to the IPO, the Corporation was solely acting as the manager of the Fund and Innergex II and owned a 15% equity interest in Innergex II. The Corporation did not own any power generating facility, projects under development or units of the Fund before December 6, 2007.

Management's Discussion and Analysis

Operating Facilities

The Glen Miller hydroelectric facility was acquired as part of the assets of Innergex II on December 6, 2007. Therefore, the facility's level of production accounts for a period of only 26 days. During the period, the Glen Miller hydroelectric facility produced 2,530 MW-hr, or 37% below the prorated long-term average of 4,029 MW-hr. The electricity production was affected by lower than normal hydrological conditions on the Trent River.

Since December 6, 2007, the Corporation owns 4,724,409 units or 16.1% of the Fund which in turn owns interests in ten operating hydroelectric facilities and two operating wind farms. For the year 2007, the Fund's production totalled 608,509 MW-hr (including 18,257 MW-hr generated from the newly acquired wind assets) compared to 641,525 MW-hr for the year 2006. Hydrology conditions in 2006 generated a production 5% higher than the long-term average, compared to 2007 when production was lower by 3%. Gross operating revenue totalled \$40.4 million, 2% lower as compared to the 2006 results which totalled \$41.2 million. This decrease can be explained by less favourable hydrology conditions and by shutdowns at the Portneuf facilities at the beginning of the summer and during the fall of 2007, allowing Hydro-Québec TransEnergie to perform maintenance work at its *Les Basques* substation and the Ministère des Transports du Québec to move the transmission line for a road reconfiguration. More information regarding the Fund may be found at www.sedar.com. Such information is not incorporated by reference.

The Corporation was entitled to receive its share of the Fund's monthly distribution for the month of December. The Corporation's statements of earnings include the 16.1% share of the net earnings of the Fund since December 6, 2007, adjusted for its own accounting re-evaluation of assets acquired.

Development Projects with PPAs

On December 6, 2007, the Corporation acquired interests in three projects under construction as part of the acquisition of Innergex II. These projects are: i) the 23 MW Umbata Falls hydroelectric project located in Ontario; ii) the 109.5 MW Carleton wind farm located in Québec; and iii) the 49.9 MW Ashlu Creek hydroelectric project located in British Columbia. During the last 26 days of 2007, the construction of these projects continued as planned. The table below gives an overview of the advancement of the projects under construction owned by the Corporation.

Development Projects with PPAs (under construction)

Project Name	Location	Installed Capacity (MW)	Estimated Long-term Average Production (MW-hr)	Estimated Total Construction Costs	Total Construction Costs as at Dec. 31, 2007	Expected Commercial In-service Date
Umbata Falls ¹	Ontario	23.0	109,102	\$ 60.0 million	\$ 39.6 million	Q3 2008
Carleton ²	Québec	109.5	340,523	\$ 181.2 million	\$ 24.5 million	Q4 2008
Ashlu Creek	British Columbia	49.9	265,000	\$ 132.0 million	\$ 65.1 million	2009

¹ The Corporation owns 49% of this project

² The Corporation owns 38% of this project

Management's Discussion and Analysis

The table below gives an overview of the other development projects with PPAs that are not yet under construction. More specifically, the environmental studies for Montagne-Sèche and Gros Morne projects are being conducted as forecast. It is expected that these two projects will be under review by the *Bureau d'audiences publiques sur l'environnement* by next fall.

Development Projects with PPAs (pre-construction phase)

Project Name	Location	Installed Capacity (MW)	Estimated Total Construction Costs	Expected Commercial In-service Date
Hydro				
Matawin	Québec	15.0	\$ 24.6 million	2009
Mkw'Alts	British Columbia	47.7	\$ 87.3 million	2010
Kwoiek Creek ¹	British Columbia	49.9	\$ 152.1 million	2010
Wind				
Montagne-Sèche ²	Québec	58.5	\$ 103.0 million	2011
Gros Morne I ²	Québec	100.5	\$ 348.5 million	2011
Gros Morne II ²	Québec	111.0		2012

¹ The Corporation owns 50% of this project

² The Corporation owns 38% of this project

Management's Discussion and Analysis

Prospective Projects

With the acquisition of Innergex II, the Corporation acquired hydroelectric and wind prospective projects with an aggregate total of more than 1,600 MW of potential installed capacity.

Project Name	Fuel Type	Province	Ownership Interest	Gross Installed Capacity (MW)	RFP
Kaipit	Hydro	British Columbia	100.0%	9.9	BC Hydro Standard Offer Program
Kokish	Hydro	British Columbia	100.0%	9.9	BC Hydro Standard Offer Program
Kipawa	Hydro	Québec	48.0%	42.0	Future Hydro-Québec RFP
Sub-total Hydro				62.0	
Roussillon	Wind	Québec	100.0%	108.0	2000 MW Hydro-Québec RFP
Kamouraska	Wind	Québec	100.0%	124.5	2000 MW Hydro-Québec RFP
Massif-du-Sud	Wind	Québec	100.0%	90.0	2000 MW Hydro-Québec RFP
Saint-Constant	Wind	Québec	100.0%	70.0	Future Hydro-Québec RFP
Club des Hauteurs	Wind	Québec	100.0%	195.5	Future Hydro-Québec RFP
Haute-Côte-Nord Est	Wind	Québec	100.0%	170.0	Future Hydro-Québec RFP
Haute-Côte-Nord Ouest	Wind	Québec	100.0%	168.0	Future Hydro-Québec RFP
Rivière-au-Renard	Wind	Québec	50.0%	25.0	Future Hydro-Québec RFP
Les Méchins	Wind	Québec	38.0%	150.0	Note 1
Various projects	Wind	British Columbia	100.0%	Potential of 475 MW on a total aggregate of over 1,200 MW	BC Hydro Call for Clean Power or Future RFPs
Sub-total Wind				1,576	
Total				1,638	

Note 1: Les Méchins was awarded a PPA in Hydro-Quebec's 2004 RFP solicitation for 1,000 MW of wind power. Additional information on Les Méchins project can be found in the Corporation's Annual Information Form for the year ended December 31, 2007 and under the heading *Risks and Uncertainties* of this MD&A.

Management's Discussion and Analysis

The Roussillon, Kamouraska and Massif-du-Sud projects have been submitted into Hydro-Québec's RFP for 2,000 MW of wind power, which closed on September 18, 2007. The Corporation expects that the name of the winners will be announced in the spring of 2008 by Hydro-Québec.

The Corporation intends to submit the Kokish and Kaipit hydroelectric projects to the Standard Offer Program currently being developed by BC Hydro for small renewable power generation facilities with a nameplate capacity of less than 10 MW. The proposed regional price for energy under such program in 2007 for projects on Vancouver Island is \$82.05 per MW-hr, representing an energy price of \$79 per MW-hr and environment attribute price of \$3.05 per MW-hr. The Standard Offer Program is currently being reviewed by the BC Utilities Commission. The Corporation expects that the Standard Offer Program will become effective in the fall 2008.

The Corporation is presently reviewing the possibility to submit some of its portfolio of nine British Columbia wind projects into the upcoming BC Hydro Call for Clean Power or future RFPs.

SELECTED ANNUAL INFORMATION

	December 31, 2007	December 31, 2006	December 31, 2005
Revenues	\$ 8,048,842	\$ 6,236,995	\$ 4,733,663
Expenses	\$ 6,364,050	\$ 5,795,428	\$ 4,603,359
Net earnings and comprehensive earnings	\$ 5,546,376	\$ 178,763	\$ 1,876,296
Per share (basic)	\$ 1.64	\$ 0.13	\$ 51.66
Per share (diluted)	\$ 1.64	\$ 0.13	\$ 51.66
Weighted average number of shares outstanding ¹	3,383,477	1,359,473	36,318
Total assets	\$ 343,259,507	\$ 3,757,301	\$ 3,322,173
Long-term debt:			
Related to operating facilities	\$ 17,000,000	\$ -	\$ -
Related to projects under construction	\$ 64,135,000	\$ -	\$ -
Other	\$ -	\$ 600,000	\$ 250,000
Dividends declared on common shares	\$ 3.10	\$ -	\$ -
Shareholders' equity	\$ 230,531,478	\$ 1,809,681	\$ 1,630,918

¹ As at December 31, 2007, the Corporation had a total of 23,500,000 common shares outstanding. As such, the Corporation's per share figures for 2008 are expected to vary greatly from the figures presented in 2007.

In 2005 and 2006, the growth in revenues is mainly derived from the management fees received from Innergex II which increased due to a greater number of projects under management or under development. Management fees and incentive fees received from the Fund also increased due to acquisitions successfully completed over the years and annual adjustment to CPI. For the year 2007, the increase in revenues is due to the accounting treatment of the Corporation's share of the Fund's net earnings as revenues.

The Corporation has more than doubled its number of employees from 2004 to 2007, leading to increased office expenses. Over that period, offices were opened for Cartier Wind Energy and the development of its wind energy projects. The Corporation also opened a regional office in Vancouver to oversee the projects under development and operations in British Columbia.

The closing of the IPO concurrently with the acquisition of Innergex II on December 6, 2007 as described above explains the substantial increase in total assets, long-term debt and shareholders' equity. The increase in the weighted average number of shares outstanding over the years explains the changes in net earnings and comprehensive earnings per share in 2005, 2006 and 2007.

The Corporation declared a \$3.10 dividend on its 1,942,000 common shares outstanding prior to the IPO for a total amount of \$6.0 million. As a development company, the Corporation does not intend to declare dividends in the near future.

Management's Discussion and Analysis

OPERATING RESULTS

The Corporation's operating results for 2007 cover the period from January 1st, 2007 to December 31, 2007, and are compared to operating results for the same period in 2006. It is important to recall that for most of the year 2007 (339 days) and for 2006, the Corporation solely provided management and administrative services to Innergex Power Income Fund and Innergex II Income Fund and owned a 15% equity interest in Innergex II. The Corporation did not own any power generating facility, projects under development or units of the Fund prior to December 6, 2007.

Revenues

For the twelve months of operation in 2007, the Corporation reported revenues of \$8.0 million, compared to revenues of \$6.2 million in 2006. This increase is mainly due to the recording of the Corporation's share of the Fund's net earnings as revenues amounting to \$1.8 million (nil in 2006). As the Manager and owner of 16.1% of the outstanding units of the Fund, the Corporation is considered having a significant influence on the Fund. The Corporation therefore accounts for its share of the Fund's net earnings as revenues. The Fund's net earnings for the 26-day period ended December 31, 2007 included a \$6.7 million non-recurrent future income tax recovery which positively affected the Fund's net earnings and therefore the Corporation's share of the Fund's net earnings. As such, this amount will be significantly lower in the years to come and should not be extrapolated over a full year. During the year, the Corporation received \$6.1 million in management fees for managing both the Fund and Innergex II, a decrease of \$0.1 million compared to \$6.2 million posted in 2006. The Corporation's revenues for the year 2007 also include \$0.2 million of revenues generated from the Glen Miller hydroelectric facility for electricity sold during the last 26 days of the year.

Expenses

Expenses for the year 2007, made up mostly of general and administrative expenses, totalled \$6.4 million compared to \$5.8 million in year 2006. This increase in expenses is mainly due to a greater number of projects under management or under development which required the hiring of additional employees, and to the annual increase in salaries and benefits. For the last 26 days of the year, the Corporation also recorded \$0.1 million in operating expenses related to the operations of the Glen Miller hydroelectric facility. Operating expenses consist primarily of the operators' salaries, water rights, royalties, insurance premiums, taxes, property taxes, maintenance and repairs.

Depreciation and Amortization

The depreciation and amortization expense totalled \$0.3 million for the year 2007 compared to \$0.2 million in 2006. This difference in depreciation and amortization expense is mainly attributable to the Glen Miller hydroelectric facility.

Interest Expenses

During 2007, the Corporation incurred \$0.4 million of interest expense on its long-term debt (nil in 2006). Of this amount, \$0.3 million are interest costs incurred to finance the construction of projects and are capitalized as project development costs. An amount of \$0.1 million in interest expenses was recorded on the income statement for the year (\$0.02 million in 2006) and relates mostly to the indebtedness of the Glen Miller hydroelectric facility.

Derivative Financial Instruments

The Corporation uses derivative financial instruments, mainly bond forward contracts and interest rate swaps, to manage its exposure to the risk of an increase in interest rates on its debt related to projects under construction.

During the year 2007, the Corporation recorded an unrealized gain on its derivative financial instruments of \$0.6 million (nil in 2006).

Unusual Income

The unusual income is related to a one time distribution received from Innergex II of \$4.3 million and regarding capital gains earned following the sale to the Fund of the Rutherford Creek, Baie-des-Sables and Anse-à-Valleau projects prior to or concurrently with the IPO. This distribution was characterized as being unusual and non-recurrent.

Provision for Income Taxes

The provision for current income taxes was \$0.3 million in 2007 up from \$0.1 million in 2006. Current income taxes result mainly from the distribution from Innergex II received prior to the IPO.

The provision for future income taxes was an expense of \$0.3 million in 2007 (\$0 in 2006) and stemmed from a large increase of income.

Net Earnings and Comprehensive Earnings

For the period, the Corporation posted net earnings and comprehensive earnings of \$5.5 million (basic and diluted \$1.64 per share). For the corresponding period in 2006, the net earnings and comprehensive earnings totalled \$0.2 million (basic and diluted \$0.13 per share). This difference can mainly be explained by the receipt of a \$4.3 million distribution from Innergex II related to capital gains earned following the sale of projects concurrently or prior to the IPO, and by the exceptionally high Corporation's share of the Fund's net earnings in the amount of \$1.8 million.

Management's Discussion and Analysis

When excluding from the results these two items, the Corporation would have recorded a loss of \$0.6 million for 2007 (basic and diluted loss of \$0.18 per share).

On December 4, 2007, the Corporation amended its authorized capital to allow for an unlimited number of common shares and preferred shares to be issued and to cancel the then existing Class B shares.

On December 4, 2007, the Corporation issued 1,942,001 common shares upon the conversion of 8,081 Class B shares, and on December 6, 2007 it issued 10,455,000 common shares pursuant to its IPO. Concurrently with the IPO, the Corporation issued 11,102,999 common shares through a private placement.

On December 6, 2007, the Corporation granted 1,410,000 options entitling the holders to purchase a total of 1,410,000 common shares at \$11.00 per share. The options are valid for a 10-year period and 25% become vested on each anniversary of the grant date.

Consequently, basic per-share figures are based on a weighted average number of 3,383,477 shares outstanding for the year ended December 31, 2007, compared to a weighted average number of 1,359,473 shares outstanding for the year ended December 31, 2006 when considering that the 8,081 Class B shares were converted into 1,942,001 common shares.

For the year ended December 31, 2007, diluted per-share figures are based on a weighted average number of 3,384,096 shares outstanding, compared to a weighted average number of 1,359,473 shares outstanding for the year ended December 31, 2006 when considering that the 8,081 Class B shares were converted into 1,942,001 common shares.

As at December 31, 2007, the Corporation had a total of 23,500,000 common shares outstanding compared to 5,657 Class B shares, representing 1,359,473 common shares after conversion, outstanding as at December 31, 2006. As such, the Corporation's per share figures for 2008 are expected to vary greatly from the figures presented in 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operating Activities

For the year ended December 31, 2007, the Corporation generated \$6.3 million of cash flows from operating activities, compared to \$0.2 million of cash flows from operating activities in 2006. This increase is mainly due to the increase in net earnings compared to 2006 and by a positive \$2.3 million change in non-cash working capital items in 2007 resulting mainly from accounts receivable received.

For the twelve-month period ended December 31, 2006, the change in non-cash working capital items was negative at \$0.1 million mainly as a result of a decrease in income taxes payable.

Cash Flows from Financing Activities

For the year ended December 31, 2007, cash flow from financing activities totalled \$95.7 million compared to \$0.4 million in 2006. This amount includes the proceeds from the issuance of share capital for \$237.1 million offset by \$12.0 million of issuance costs and \$124.1 million of long-term debt repayment. The issuance of shares and issuance costs are related to the IPO and the debt repayment is related to the repayment of outstanding indebtedness owed by Innergex II to Institutional Investors.

The Corporation also paid a \$6.0 million dividend to its shareholders prior to the IPO. As a development company, the Corporation does not intend to declare dividends in the near future.

Cash flows from financing activities during the year 2006 totalled \$0.4 million from the issuance of long-term debt.

Cash Flows from Investing Activities

For 2007, the Corporation's cash flows from investing activities totalled \$67.8 million. The acquisition of Innergex II represented a net cash outflow of \$64.1 million while additions to property, plant and equipment used \$5.0 million of cash and additions to project development costs used \$0.6 million. These amounts were partially offset by a \$2.1 million decrease in distribution receivable from Innergex II.

For 2006, the Corporation's cash flows from investing activities totalled \$0.4 million, stemming mainly from acquisitions of property, plant and equipment of \$0.4 million.

Cash and Cash Equivalents

During the year 2007, the Corporation generated \$34.2 million in cash and cash equivalents. As at December 31, 2007, the Corporation had cash and cash equivalents of \$34.7 million.

During 2006, the Corporation generated \$0.2 million in cash and cash equivalents. As at December 31, 2006, the Corporation had cash and cash equivalents of \$0.5 million.

Management's Discussion and Analysis

Use of all Financing Proceeds

On December 6, 2007, the Corporation issued for \$115.0 million of shares by way of a public offering and \$122.1 million of shares by way of a private placement. The costs related to these two issuances amounted to \$12.0 million for total net proceeds of \$225.1 million.

This amount was used to acquire the equity interest in Innergex II that the Corporation did not already own, for an amount of \$63.4 million, to repay or purchase the promissory notes owed by Innergex II to Institutional Investors for an amount of \$123.9 million, and to pay a \$3.8 million dividend to its shareholders. The excess amount of \$34.1 million will be used to fund the equity portion necessary to complete the Development Projects with PPAs and for working capital and general corporate purposes.

During the year 2006, the Corporation obtained \$0.4 million of financing from the issuance of a note payable to Innergex II and used the proceeds for general corporate purposes.

Use of All Financing Proceeds	For the year ended December 31, 2007
	\$
Issuance of shares:	
December 6, 2007 – public offering	115,005,000
December 6, 2007 – private placement	122,132,989
Less: Issuance costs	(12,037,763)
	225,100,226
Business acquisitions: Innergex II Income Fund	(63,364,165)
Repayment or purchase of promissory notes owed by Innergex II	(123,875,000)
Dividend to shareholders of the Corporation	(3,781,079)
	(191,020,244)
Contribution to working capital	34,079,982

FINANCIAL POSITION

Assets

As at December 31, 2007, the Corporation had \$343.3 million in total assets, compared to \$3.8 million in total assets as at December 31, 2006. This increase stems from the IPO and the acquisition of Innergex II.

Property, Plant and Equipment

Property, plant and equipment are comprised mainly of hydroelectric projects and wind farms, and are recorded at cost and depreciated using the straight-line method based on their estimated useful lives. As part of the acquisition of Innergex II, the Corporation acquired the operating Glen Miller hydroelectric facility, with a net book value of \$18.8 million, the Ashlu Creek and Umbata Falls hydroelectric projects under construction, with a net book value of \$81.9 million and the Carleton wind farm also under construction with a net book value of \$10.1 million. Together with other equipment totalling \$0.6 million, the Corporation had \$111.4 million in capital assets as at December 31, 2007 (\$0.6 million in 2006).

Intangible Assets

The intangible assets consist of various permits, licenses and agreements. With the acquisition of Innergex II, the Corporation acquired for \$40.9 million of intangible assets related to the Glen Miller, Ashlu Creek, Umbata Falls and Carleton projects (nil in 2006).

Project Development Costs

Project development costs represent costs incurred in the investigation, acquisition and development of power generating facilities. These costs are transferred to property, plant and equipment, when construction of a project starts. As at December 31, 2007, the Corporation had \$37.3 million of project development costs (nil in 2006). This relates to Development Projects with PPA in pre-construction phase and the Prospective Projects acquired with Innergex II.

The \$63.1 million investment in an entity subject to significant influence (nil in 2006) relates to the 16.1% interest the Corporation has in the Fund. This investment is accounted for using the equity method.

As at December 31, 2007, the Corporation recorded \$30.6 million in goodwill following the acquisition of Innergex II (nil in 2006).

Management's Discussion and Analysis

Other assets amounting to \$2.2 million (\$5,775 in 2006) are mainly made up of a loan to a partner in a project and derivative financial instruments.

The Corporation had cash and cash equivalent totalling \$34.7 million as at December 31, 2007 compared to \$0.5 million in 2006. This level of cash raised mostly from the IPO is deemed sufficient by management, when coupled with future cash flows of the Corporation and an additional reasonable amount of debt, to complete the Corporation's nine Development Projects with PPAs.

The Corporation invests its cash in liquid assets such as banker's acceptances and term deposits having short-term maturities. The Corporation did not invest amounts in any form of asset-backed commercial papers.

As at December 31, 2007, the working capital was \$34.3 million for a working capital ratio of 2.69:1.00. The Corporation considers its current working capital to be sufficient to meet all of its needs. If necessary, the Corporation can use a bank credit facility in the amount of \$20.0 million. Of this amount, \$2.0 million was used in direct loans, \$6.5 million for the issuance of letters of credit and \$4.3 million to secure bond forward contracts. Therefore, as at December 31, 2007, an amount of \$7.3 million was available to the Corporation under its credit facility.

Account receivables increased from \$0.5 million in 2006 to \$19.5 million as at December 31, 2007. They are mainly composed of \$14.0 million notes receivable from subsidiaries of the Fund in relations to the sale of the Innergex II interest in the Anse-à-Valleau and Baie-des-Sables wind farms. The notes are expected to be paid upon receipt of amounts due by Hydro-Quebec TransEnergie in relations with the construction of a substation and by the Federal and Provincial governments in relations with recoverable sales taxes.

Accounts payable and accrued liabilities increased from \$1.3 million in 2006 to \$14.8 million as at December 31, 2007 and are mainly composed of \$13.7 million of trade payable related to the IPO, and to the construction of the Ashlu Creek, Carleton, Umbata Falls and other projects.

Long-term Debt

As at December 31, 2007, the long-term debt was \$81.1 million and the debt-to-enterprise value ratio represented 21.7%. As at December 31, 2006, long-term debt was \$0.6 million.

The debt consists of: i) a \$17 million non-recourse term loan secured by the Glen Miller hydroelectric facility having a five year term and for which the principal repayments were waived off as long as a threshold debt service coverage ratio is met. The loan is set at variable rate, which is equal to the banker's acceptances plus a credit margin of 140 basis points; ii) a \$51 million non recourse construction loan of which \$31.4 million has been drawn (of which \$15.4 million represents the Corporation's 49% ownership of the project) and secured by the Umbata Falls hydroelectric facility. The loan matures five years following term conversion. The loan's principal payments will begin on term conversion and will be based on a 20-year amortization period. The loan bears interest at banker's acceptances plus an applicable credit margin; iii) a \$110.0 million non-recourse construction loan, of which \$48.7 million has been drawn, and secured by the Ashlu Creek hydroelectric facility. The loan matures 15 years following term conversion. The loan's principal payments will begin on term conversion and will be based on a 25-year amortization period. The loan bears interest at banker's acceptances plus an applicable credit margin.

If they are not met, certain financial and non-financial conditions included in the credit agreements entered into with certain Corporation subsidiaries could limit the capacity of these subsidiaries to transfer sums to the Corporation. These restrictions could have a negative impact on the Corporation's capacity to meet its obligations. During the 2007 financial period, the Corporation and its subsidiaries met all financial and non-financial conditions related to their credit agreements.

In view of the recent turmoil in the financial markets, the management does not expect to have difficulty to secure new financings for the development of its projects. However, new debt financings could be obtained on terms less favourable and that include more restrictive covenants.

Future Income Taxes

The tax impact of temporary differences can result in material future tax assets or liabilities. As at December 31, 2007, the Corporation recorded net future income taxes liability totalling \$4.6 million compared to a future income taxes asset of \$27,984 in 2006. This liability comes from the excess of the accounting value over the tax basis of Innergex II's assets acquired on December 6, 2007.

Shareholders' Equity

As at December 31, 2007, the Corporation's shareholders' equity totalled \$230.5 million compared to \$1.8 million in 2006. On December 6, 2007, the Corporation issued for \$237.1 million of share capital with the issuance of common shares through a public offering and a private placement.

Management's Discussion and Analysis

Expected Contractual Obligations as at December 31, 2007

Contractual obligations	Total	Under 1 year	1 to 3 years	4 to 5 years	Over 5 years
	\$	\$	\$	\$	\$
Long-term debt	81,135,000	–	23,080,850	5,130,800	52,923,350
Interest on long-term debt	50,209,677	5,849,060	16,449,279	8,231,954	19,679,384
Operating leases	2,235,414	86,700	270,643	189,571	1,688,500
Purchase obligations ¹	133,689,052	105,314,897	24,061,650	1,842,232	2,470,273
Other long-term obligations ²	1,549,673	425,663	1,124,010	–	–
Total contractual obligations	268,818,816	111,676,320	64,986,432	15,394,557	76,761,507

¹ Purchase obligations are mainly derived from turbine supply agreements and Engineering, Procurement and Construction contracts.

² Other long-term obligations are mainly comprised of office leases.

Off-balance Sheet Arrangements

There are no off-balance sheet arrangements as at December 31, 2007.

RELATED PARTY TRANSACTIONS

As the Manager of Innergex Power Income Fund

The Corporation provides services to the Fund and its subsidiaries under three agreements, namely a Management Agreement, an Administration Agreement, and a Services Agreement. In 2007, the Corporation was paid \$1.4 million for the services provided under the three agreements (which was similar in 2006). The Corporation is also entitled to incentive fees corresponding to 25% of the Fund's annual distributable cash per trust unit exceeding \$0.925 per trust unit. During 2007, \$0.3 million (\$0.3 million in 2006) in incentive fees were earned.

On December 6, 2007, the Corporation made certain amendments to its Management, Administrative and Services agreements with the Fund, including: i) extending their initial terms from 2023 to 2030; ii) granting mutual right to terminate the agreements upon certain events, by paying a cash compensation to the Manager; and iii) amending the calculation of the incentive fee to exclude income taxes related to the taxation of public trusts adopted in 2007.

As the Manager of Innergex II Income Fund

Prior to its acquisition on December 6, 2007, the Corporation provided management services to Innergex II. Management fee revenues amounted to \$4.3 million for the year ended December 31, 2007 compared to \$4.5 million in 2006.

Management's Discussion and Analysis

SEGMENT INFORMATION

The Corporation has two reportable segments: (a) hydroelectric production; and (b) development of sites and management. The Corporation reportable segments are operating using different means of production or type of activities. They are managed by different teams as they require different skills to operate them. There were no segments in 2006 since those were acquired on December 6, 2007.

	Year ended December 31, 2007		
	Hydroelectric production	Development of sites and management	Total
	\$	\$	\$
Revenues from external customers	168,673	7,880,169	8,048,842
Operating expenses	50,076	–	50,076
Operating income	118,597	7,880,169	7,998,766
General and administrative expenses	2,855	6,311,119	6,313,974
Earnings before interests, income taxes, depreciation and amortization and other revenues and expenses	115,742	1,569,050	1,684,792
Long-term assets	25,313,901	263,349,920	288,663,821
Goodwill	–	30,552,578	30,552,578
Total assets	25,571,910	317,687,597	343,259,507
Acquisitions of long-term assets	–	4,480,188	4,480,188

CRITICAL ACCOUNTING ESTIMATES

The critical accounting estimates for the Corporation are related to valuation of assets acquired and liabilities assumed in business acquisition, the impairment of assets, useful lives for depreciation and amortization, and future income taxes. The fixed assets comprised mainly of hydroelectric and wind power generating facilities are recorded at cost. The financing costs related to the construction of fixed assets are capitalized when incurred. Depreciation of hydroelectric power generating facilities and wind power generating facilities is based on the estimated useful life of the assets using the straight-line method over the lesser of a period of 50 years for the hydroelectric facilities and 20 to 25 years for the wind facilities and the period for which the Corporation owns the right to the assets. The intangible assets consist of various permits, licences and agreements related to the hydroelectric and wind power generating facilities. These intangible assets are amortized using the straight-line method over the period when the facility becomes commercially operational until the first maturity date of permits, licences and agreements for each facility. Other significant accounting policies are listed in Note 2 of the Notes to the consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Financial Instruments

The Canadian Institute of Chartered Accountants ("CICA") has issued the following new accounting standards, which came into effect on January 1, 2007 for the Corporation. The adoption of these new standards had no impact on the Corporation's consolidated financial statements.

- a) Section 3855, *Financial Instruments – Recognition and Measurement*. This Section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The Corporation has made the following classification:

- Cash and cash equivalents and financial derivatives are classified as assets or liabilities held for trading. Funds held in reserve, which are included in other long-term assets, are also included in this category. These items are measured at fair value; gains or losses arising from the revaluation at the end of each period are recorded in consolidated net earnings.

Management's Discussion and Analysis

- Accounts receivable and distribution receivable and loan to third party, which are included in other long-term assets are classified as loans and receivables and are measured at amortized cost.
 - Bank loan, accounts payable and accrued liabilities, construction holdbacks and long-term debt are classified as other financial liabilities. They were initially measured at fair value and are now recorded at amortized cost.
- b) Section 1530, *Comprehensive Income*. This Section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions other than those resulting from investments by shareholders and dividends to shareholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments.
- c) Section 3865, *Hedges*. This Section describes when and how hedge accounting can be applied, as well as disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. The Corporation did not designate any of its financial instruments for accounting purposes as hedges.

Adoption of new accounting policies

- a) CICA Handbook Section 3862 *Financial Instruments – Disclosures* establishes disclosure standards for financial instruments, including information concerning fair value and related credit, liquidity and market risks. Section 3863 *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives.

Both of these sections apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Corporation adopted these standards prospectively on December 31, 2007. Due to the prospective adoption of Section 3862, additional information was presented in Note 18 concerning financial instruments.

Future accounting changes

- a) CICA Handbook Section 1535 *Capital Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate its objectives, policies and processes for managing capital. This section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Corporation does not expect the adoption of this standard to have a material impact on its consolidated financial statements.
- b) CICA Handbook Section 3064, *Goodwill and Intangible Assets*, replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section, issued in February 2008, will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation will adopt the new standard for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation is currently assessing the future impact of this new standard on its consolidated financial statements.

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies will be converged to International Financial Reporting Standards ("IFRS"). The official changeover date from current Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Corporation will convert to these new standards according to the timetable set with these new rules. The Corporation is currently assessing the future impact of these new standards on its consolidated financial statements.

FINANCIAL DERIVATIVE INSTRUMENTS

Due to a decline in the bond yields and lower market rate environment as at December 31, 2007, the outstanding bond forward contracts carried an aggregate negative value of \$3,501,225 (nil in 2006) and the interest rate swap had a negative value of \$1,455,974 (nil in 2006). These amounts are accounted for on the balance sheet under *Derivative financial instruments* and on the statement of earnings under *Gain on derivative financial instruments*.

RISK MANAGEMENT

The Corporation uses derivative financial instruments to manage its exposure to the risk of an increase in interest rates on debt financing. Since these financial instruments are entered into with important financial institutions, the Corporation considers the risk of illiquidity to be low. The Corporation does not own or issue financial instruments for speculation purposes.

During the year 2007, the Corporation entered into eight bond forward contracts with maturities between June 20 and June 30, 2008, and in one interest rate swap with a maturity of June 4, 2009. It is the intention of the Corporation to roll or extend these contracts or enter into new contracts in order to match the maturity of the underlying debt and protect the economic value of the projects.

Management's Discussion and Analysis

These bond forward and swap contracts allow the Corporation to eliminate the risk of an increase in interest rates on a total of approximately \$176.0 million in long-term debt (nil in 2006).

In 2005, Innergex II (now a subsidiary of the Corporation) sold the 50 MW Rutherford Creek hydroelectric project to the Fund. The entity owning the asset, Rutherford Creek Power Limited Partnership, has agreed, following the expiry or termination of the Rutherford Creek PPA in June 2024, to pay to Innergex II royalties based on the achievement of certain revenue thresholds. As at December 31, 2007, the fair value of this financial instrument is \$663,492 (nil in 2006). This amount is accounted for on the balance sheet under *Derivative financial instruments* and on the statement of earnings under *Gain on derivative financial instruments*.

RISKS AND UNCERTAINTIES

The Corporation is exposed to a variety of business risks, and has outlined those that it considers material below. However, additional risks and uncertainties not presently known to the Corporation or that it currently believes to be immaterial may also adversely affect its business. An additional number of risks and uncertainties can be found in the section *Risk Factors* in the Corporation's Annual Information Form for the year ended December 31, 2007 filed on www.sedar.com.

Execution of Strategy

The Corporation's strategy for building shareholder value is to acquire or develop high quality power generation facilities that generate sustainable and increasing cash flows, with the objective of achieving returns on invested capital. However, there is no certainty that the Corporation will be able to acquire or develop high quality power generation facilities at attractive prices to supplement its growth. The successful execution of a value investment strategy requires careful timing and business judgment, as well as the resources to complete the development of power generating assets. The Corporation may underestimate the costs necessary to bring power generating facilities into commercial operation or may be unable to quickly and efficiently integrate new acquisitions into its existing operations.

Investment in the Fund

The Corporation holds a substantial equity interest in the Fund. As a result, investors in the Corporation are subject to the risks that the Corporation will face as a significant shareholder of the Fund. The risks of being an investor in the Fund are described in the continuous disclosure documents of the Fund, which can be found at www.sedar.com. Until the Development Projects with PPAs reach commercial operation, the Corporation's ability to pay interest and other operating expenses and to meet its obligations will in part depend upon receipt of sufficient funds from its investment in the Fund. The likelihood that the Corporation will receive distributable cash from the Fund will be dependent upon the financial position and creditworthiness of the Fund. There is no guarantee that the Fund will continue to make cash distributions on a basis consistent with past practices.

Construction and Design

Delays and cost over-runs may occur in completing the construction of the Development Projects with PPAs, the Prospective Projects and future projects that the Corporation will undertake. A number of factors that could cause such delays or cost over-runs include, but are not limited to, permitting delays, changing engineering and design requirements, the performance of contractors, labour disruptions and adverse weather conditions. Even when complete, a facility may not operate as planned due to design or manufacturing flaws, which may not all be covered by warranty. Mechanical breakdown could occur in equipment after the period of warranty has expired, resulting in loss of production as well as the cost of repair. In addition, if the Development Projects with PPAs are not brought into commercial operations within the delay stipulated in their respective PPA, the Corporation may be subject to penalty payments or the counterparty may be entitled to terminate the related PPA.

Relationship with Hydro-Québec

Pursuant to the Québec 2,000 MW RFP for which the Corporation bid in September 2007, any event of default under any existing PPA for wind energy with Hydro-Québec gives rise to the right of Hydro-Québec to terminate any future PPA which may be executed in connection with such RFP. The occurrence of a default by the Corporation under any existing Cartier Wind Project PPA with Hydro-Québec could impact future projects of the Corporation in Québec. In the event that the Corporation is in default under a Cartier Wind Project PPA, including the PPA for the Les Méchins Project, the Corporation could be considered by Hydro-Québec in default under a PPA which could potentially be awarded to the Corporation under the Québec 2,000 MW RFP. In addition, the Cartier Wind Project PPAs, including the PPA for the Les Méchins Project PPA, provide for certain penalties that could become due upon the occurrence of an event of default thereunder, subject to certain amounts provided therein. Should such penalties become payable to Hydro-Québec, 38% of such penalties would be borne by the Corporation.

Management's Discussion and Analysis

Development of New Facilities

The Corporation participates in the construction and development of new power generating facilities. These facilities have greater uncertainty surrounding future profitability than existing operating facilities with established track records. In certain cases many factors affecting costs are not yet determined, such as land royalty payments, water royalties, or municipal taxes. The Corporation is in some cases required to advance funds and post performance bonds in the course of development of its new facilities. In the event that certain of these power generating facilities are not completed or do not operate to the expected specifications, or unforeseen costs or taxes are incurred, the Corporation could be adversely affected.

Project Performance

The ability of the Corporation's facilities to generate the maximum amount of power which can be sold to Hydro-Québec, BC Hydro and the OPA or other purchasers of electricity under PPAs is an important determinant of the revenues of the Corporation. If one of the Corporation's facilities delivers less than the required quantity of electricity in a given contract year, penalty payments may be payable to the relevant purchaser by the Corporation. The payment of any such penalties by the Corporation could adversely affect the revenues and profitability of the Corporation.

Equipment Failure

The Corporation's facilities are subject to the risk of equipment failure due to deterioration of the asset from use or age, latent defect and design or operator error, among other things. To the extent that a facility's equipment requires longer than forecasted down times for maintenance and repair, or suffers disruptions of power generation for other reasons, the Corporation's business, operating results, financial condition or prospects could be adversely affected.

Capital Resources

Future development and construction of new facilities and the development of the Development Projects with PPAs and the Prospective Projects and other capital expenditures will be financed out of cash generated from the Corporation's investment in the Fund, operations, sales of additional equity and borrowings. To the extent that external sources of capital, including issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make necessary capital investments to construct new or maintain existing project facilities and remain in business will be impaired. There is no certainty that sufficient capital will be available on acceptable terms to fund further development or expansion.

Interest Rate and Refinancing Risk

Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. While the interest rates on the Corporation's long-term debt will be fixed, the Corporation faces interest rate and debt refinancing risk in respect of floating-rate bank credit facilities used for construction financing. The Corporation's ability to refinance debt on favourable terms is dependent on debt capital market conditions, which are inherently variable and difficult to predict.

Financial Leverage and Restrictive Covenants

The Corporation's operations will be subject to contractual restrictions contained in the instruments governing any of its current and future indebtedness. The degree to which the Corporation is leveraged could have important consequences to shareholders including: (i) the Corporation's ability to obtain additional financing for working capital, capital expenditures, acquisitions or other project developments in the future may be limited; (ii) a significant portion of the Corporation's cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; (iii) certain of the Corporation's borrowings will be at variable rates of interest, which exposes the Corporation to the risk of increased interest rates; and (iv) the Corporation may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures. The Corporation is subject to operating and financial restrictions through covenants in certain loan and security agreements. These restrictions prohibit or limit the Corporation's ability, and the ability of its subsidiaries, to, among other things incur additional debt, provide guarantee for indebtedness, create liens, dispose of assets, liquidate, dissolve, amalgamate, consolidate or effect any corporate or capital reorganization, make distributions, issue any equity interests and create subsidiaries. These restrictions may limit the Corporation's ability to obtain additional financing, withstand downturns in the Corporation's business and take advantage of business opportunities. Moreover, the Corporation may be required to seek additional debt financing on terms that include more restrictive covenants, require repayment on an accelerated schedule or impose other obligations that limit the Corporation's ability to grow the business, acquire needed assets or take other actions the Corporation might otherwise consider appropriate or desirable.

ADDITIONAL INFORMATION AND UPDATES

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 Web site at www.innergex.com, or on the SEDAR Web site at www.sedar.com.

Management's Discussion and Analysis

QUARTERLY FINANCIAL INFORMATION

For the three-month periods ended (unaudited):

	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Revenues (\$ thousands)	3,067	1,478	1,714	1,791
Net earnings and comprehensive earnings (\$ thousands)	5,392	56	58	40
Net earnings and comprehensive earnings				
Basic (\$/share)	0.67	0.03	0.03	0.03
Diluted (\$/share)	0.67	0.03	0.03	0.03
Weighted average number of shares outstanding (thousands) ¹				
Basic	8,034	1,942	1,942	1,560
Diluted	8,135	1,942	1,942	1,560

¹ As at December 31, 2007, the Corporation had a total of 23,500,000 common shares outstanding.

	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Revenues (\$ thousands)	1,847	1,399	1,556	1,435
Net earnings and comprehensive earnings (\$ thousands)	42	43	47	47
Net earnings and comprehensive earnings				
Basic (\$/share)	0.03	0.03	0.03	0.03
Diluted (\$/share)	0.03	0.03	0.03	0.03
Weighted average number of shares outstanding (thousands)				
Basic	1,359	1,359	1,359	1,359
Diluted	1,359	1,359	1,359	1,359

Responsibility for Financial Reporting
&
Auditors' Report to Shareholders

Responsibility for Financial Reporting

The consolidated financial statements of Innergex Renewable Energy Inc. (the “Corporation”) accompanying this annual report and all of the information herein concerning the Corporation are the responsibility of Management.

These consolidated financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles (“GAAP”) by applying the detailed accounting policies set out in the notes to the financial statements. Management is of the opinion that the consolidated financial statements were prepared based on reasonable and material criteria and using justifiable and reasonable estimates. The Corporation’s financial information, presented elsewhere in this annual report, is consistent with what is presented in the financial statements.

Management maintains efficient and high-quality internal accounting and management control systems while ensuring that costs are reasonable. These systems provide assurance that the financial information is relevant, accurate and reliable, and that the Corporation’s assets are correctly accounted for and adequately protected.

The Board of Directors of the Corporation is responsible for ensuring that Management fulfils its financial reporting responsibilities. In addition, the Board of Directors is ultimately responsible for reviewing and approving the Corporation’s consolidated financial statements. The Board of Directors fulfils this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and all of its members are external non-related Directors.

The Audit Committee meets with Management and the external auditors for the purposes of discussing internal controls relating to the financial reporting process, audit of financial information and other financial issues, and to make sure that each party is properly fulfilling its responsibilities. In addition, the Audit Committee reviews the annual report, the consolidated financial statements and the external auditors’ report. The Audit Committee submits its findings to the Board of Directors for review and for approval of the consolidated financial statements prior to their presentation to the shareholders. The Audit Committee also determines whether to retain the services of external auditors and to renew their mandate, which is subject to Board review and shareholders’ approval.

These financial statements were approved by the Corporation’s Board of Directors. The Corporation’s financial statements were audited by its external auditors, Samson Bélair / Deloitte & Touche s.e.n.c.r.l., in accordance with Canadian generally accepted auditing standards and on the shareholders’ behalf. Samson Bélair / Deloitte & Touche s.e.n.c.r.l. enjoys full and unrestricted access to the Audit Committee.



Michel Letellier, MBA
President
and Chief Executive Officer



Jean Perron, CA, CMA
Vice President
and Chief Financial Officer

Innergex Renewable Energy Inc.

Longueuil, Canada, March 27, 2008

Auditors' Report to Shareholders

To the Shareholders of
Innergex Renewable Energy Inc.

We have audited the consolidated balance sheets of Innergex Renewable Energy Inc. (the "Corporation") (formerly Innergex Management Inc.) as at December 31, 2007 and 2006 and the consolidated statements of earnings and comprehensive earnings, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SAMSON BÉLAÏR / Deloitte & Touche s.e.n.c.r.l.

Chartered Accountants
March 19, 2008

Montréal, Québec

Consolidated Financial Statements

For the year ended December 31, 2007

Consolidated Financial Statements

Consolidated Statements of Earnings and Comprehensive Earnings	For the year ended December 31, 2007	For the year ended December 31, 2006
	\$	\$
Revenues		
Operating	168,673	–
Management fees	6,056,815	6,236,995
Share of net earnings of an entity subject to significant influence (Note 9)	1,823,354	–
	8,048,842	6,236,995
Expenses		
Operating expense	50,076	–
General and administrative expenses	6,313,974	5,795,428
	6,364,050	5,795,428
Earnings before interests, income taxes, depreciation and amortization and other items	1,684,792	441,567
Depreciation and amortization	306,295	182,767
Interest on bank loan	11,023	–
Interest on long-term debt	99,922	20,175
Gain on derivative financial instruments	(574,798)	–
Other (revenues) and expenses	(84,689)	52
Write-off of project development costs	65,087	–
Earnings before unusual income and income taxes	1,861,952	238,573
Unusual income:		
Distribution from a trust under common management (Note 4)	4,330,478	–
Earnings before income taxes	6,192,430	238,573
Income taxes (Note 13)		
Current	319,697	69,910
Future	326,357	(10,100)
	646,054	59,810
Net earnings and comprehensive earnings	5,546,376	178,763
Weighted average number of shares outstanding	3,383,477	1,359,473
Basic net earnings per share	1.64	0.13
Diluted number of shares outstanding	3,384,096	1,359,473
Diluted net earnings per share	1.64	0.13

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

Consolidated Financial Statements

Consolidated Statements of Retained Earnings	For the year ended December 31, 2007	For the year ended December 31, 2006
	\$	\$
Retained earnings, beginning of year	1,802,835	1,624,072
Net earnings	5,546,376	178,763
Dividends declared	(6,029,287)	–
Refund of refundable dividend tax on hand (Note 15)	273,410	–
Retained earnings, end of year	1,593,334	1,802,835

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

Consolidated Financial Statements

Consolidated Balance Sheets

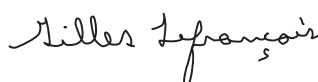
December 31, 2007

December 31, 2006

	\$	\$
Assets		
Current assets		
Cash and cash equivalents	34,690,837	523,507
Accounts receivable (Note 5)	19,576,093	514,244
Current portion of distribution receivable from a trust under common management	–	512,584
Prepaid and others	328,756	15,803
	54,595,686	1,566,138
Distribution receivable from a trust under common management	–	1,537,751
Investment in a trust under common management (Note 4)	–	13,235
Property, plant and equipment (Note 6)	111,423,328	606,418
Intangible assets (Note 7)	40,832,760	–
Project development costs (Note 8)	37,335,586	–
Investment in an entity subject to significant influence (Note 9)	63,144,213	–
Future income taxes (Note 13)	3,214,616	27,984
Goodwill (Note 4)	30,552,578	–
Other long-term assets	2,160,740	5,775
	343,259,507	3,757,301
Liabilities		
Current liabilities		
Bank loan (Note 10)	2,000,000	–
Accounts payable and accrued liabilities (Note 11)	14,824,342	1,347,620
Current portion of long-term debt (Note 12)	–	250,000
Derivative financial instruments (Note 18 b)	3,501,225	–
	20,325,567	1,597,620
Construction holdbacks	1,989,626	–
Derivative financial instruments (Note 18 b)	1,455,974	–
Long-term debt (Note 12)	81,135,000	350,000
Future income taxes (Note 13)	7,816,862	–
Minority interest	5,000	–
	112,728,029	1,947,620
Shareholders' equity		
Share capital (Note 14)	228,807,842	6,846
Contributed surplus (Note 14)	130,302	–
Retained earnings	1,593,334	1,802,835
Commitments (Note 19)	230,531,478	1,809,681
	343,259,507	3,757,301

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

On behalf of the Board



Gilles Lefrançois, CA
Executive Chairman of the Board of Directors



Michel Letellier, MBA
Director

Consolidated Financial Statements

Consolidated Statements of Cash Flows	For the year ended December 31, 2007	For the year ended December 31, 2006
	\$	\$
Operating activities		
Net earnings	5,546,376	178,763
Items not affecting cash:		
Depreciation of property, plant and equipment	282,172	182,767
Amortization of intangible assets	24,123	–
Share of net earnings of an entity subject to significant influence	(1,823,354)	–
Stock-based compensation	130,302	–
Unrealized gain on derivative financial instruments	(574,798)	–
Write-off of project development costs	65,087	–
Loss on disposal of property, plant and equipment	6,747	52
Future income taxes	326,357	(10,100)
Changes in non-cash operating working capital items (Note 16)	2,313,252	(144,509)
	6,296,264	206,973
Financing activities		
Issuance of long-term debt	441,000	350,000
Repayment of long-term debt	(124,125,000)	–
Issuance of share capital (Note 14)	237,140,413	–
Redemption of share capital (Note 14)	(1)	–
Issuance costs (Note 14)	(12,037,763)	–
Dividends paid	(6,029,287)	–
Refund of refundable tax on hands	273,410	–
	95,662,772	350,000
Investing activities		
Decrease in distribution receivable from a trust under common management	2,050,335	–
Business acquisition, net of cash (Note 4)	(64,128,555)	–
Additions to property, plant and equipment	(4,971,680)	(363,646)
Additions to project development costs	(646,712)	–
Additions to other long-term assets	(95,094)	(5,775)
Proceeds from disposal of property, plant and equipment	–	19,677
	(67,791,706)	(349,744)
Net increase in cash and cash equivalents	34,167,330	207,229
Cash and cash equivalents, beginning of year	523,507	316,278
Cash and cash equivalents, end of year	34,690,837	523,507
<i>Cash and cash equivalents is comprised of:</i>		
Cash	2,020,045	523,507
Short-term investments	32,670,792	–
	34,690,837	523,507

Additional information is presented in Note 16.
The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

1. DESCRIPTION OF BUSINESS

Innergex Renewable Energy Inc. (the "Corporation") (formerly Innergex Management Inc.) was incorporated under the Canada Business Corporation Act on October 25, 2002. The Corporation provided management and administrative services up to its initial public offering on December 6, 2007. The Corporation is an independent manager, developer and operator of renewable power generating facilities with a focus on the hydroelectric and wind power sectors. On October 25, 2007, the Corporation changed its name from Innergex Management Inc. to Innergex Renewable Energy Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries as well as those of the variable interest entity for which the Corporation is the primary beneficiary and the accounts of joint ventures to the extent of the Corporation's proportional interest in their respective assets, liabilities, revenues and expenses. Investments over which the Corporation is able to exercise significant influence are accounted for by the equity method. All intercompany balances and transactions have been eliminated.

Consolidation of variable interest entities

Accounting Guideline 15 ("AcG-15"), *Consolidation of Variable Interest Entities* ("VIEs") outlines consolidation principles for VIEs. VIEs are entities in which equity investors do not have controlling financial interest or the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders. AcG-15 requires the consolidation of a VIE by its primary beneficiary (i.e. the party that receives the majority of the expected residual returns and/or absorbs the majority of the entity's losses). In accordance with AcG-15, the Corporation is considered the primary beneficiary for one of its 50% investment in a joint venture and accordingly, it was consolidated.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

Government assistance

Government assistance in the form of a refundable investment tax credit is recorded in the financial statements when there is reasonable assurance that the Corporation complied with all conditions necessary to obtain the assistance.

The Corporation incurs renewable energy development expenditures, which are eligible for investment tax credits. The recorded investment tax credits are based on management's estimates of amounts expected to be recovered and are subject to an audit by the taxation authorities.

Government assistance, including investment tax credits for renewable energy development expenditures, is reflected as a reduction in the cost of the assets or expenses to which it relates.

Property, plant and equipment

Property, plant and equipment, comprised mainly of hydroelectric and wind farm facilities, are recorded at cost. Financing costs related to the construction of property, plant and equipment and revenues derived prior to commercial operation are capitalized when incurred. Depreciation of hydroelectric power generating facilities is based on the estimated useful lives of the assets using the straight-line method over the lesser of a period of 50 years or the period for which the Corporation owns the rights to the assets. Depreciation of wind farm facilities is based on the estimated useful lives of the assets using the straight-line method over a period of 20 to 25 years. Improvements that increase or extend the service life or capacity of an asset are capitalized. Other equipments are depreciated using the declining balance method at annual rates ranging from 20% to 33%. Maintenance and repair costs are expensed as incurred. Property, plant and equipment are not depreciated until their commissioning date.

Intangible assets

Intangible assets consist of various permits, licences and agreements. They are recorded at cost and amortization starts when the related facility becomes commercially operational. They are amortized using the straight-line method over a period of 20 to 40 years ending on the first maturity date of the permits, licences or agreements of each facility. Intangible assets are related to three categories, being hydroelectric facilities, hydroelectric facilities under construction and wind farm facilities under construction. Intangible assets related to hydroelectric facilities under construction and wind farms under construction are not amortized until the commissioning date of the related hydroelectric facilities and wind farms.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Project development costs

Project development costs represent costs incurred in the investigation, acquisition and development of hydroelectric and wind farm sites. The costs are transferred to property, plant and equipment or intangible assets when a hydroelectric or wind farm site becomes in construction. Interest costs incurred to finance the investigation, acquisition and development are capitalized as project development costs. Costs of unsuccessful projects are written off in the year the project is abandoned.

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposal. The amount of the impairment loss is determined as the excess of the carrying amount of the asset over its fair value.

Investment in an entity subject to significant influence

Investment in Innergex Power Income Fund over which the Corporation exercises significant influence (but does not control) is accounted for using the equity method whereby the investment is initially recorded at cost and subsequently adjusted to recognize the Corporation's share of earnings or losses of the investee companies and reduced by distributions received. The excess of the cost of equity investments over the underlying book value at the date of acquisition, except for goodwill, is amortized over the estimated useful lives of the underlying assets to which it is attributed.

Goodwill

Goodwill represents the excess of purchase price over fair value of the net identifiable assets of acquired businesses. Goodwill is not amortized but is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of earnings in an amount equal to the excess.

Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, service has been rendered, the price to the buyer is fixed or determinable and collection is reasonably assured. Operating revenue comes from electricity production sold to publicly owned utilities. Management fees are earned from services rendered as the manager of Innergex Power Income Fund and prior to December 6, 2007 from Innergex II Income Fund for supervision, assistance and administration in developing, building and operating facilities. Share of net earnings of an entity subject to significant influence comes from recording the Corporation's 16.1% share of the net earnings of Innergex Power Income Fund.

Derivative financial instruments

Derivative financial instruments held for trading or speculative purposes or that are not eligible for hedge accounting are recognized on the balance sheet at their fair value, with changes in fair value recognized in net earnings.

Stock-based compensation

The Corporation uses the fair value method to measure compensation expense at the date of grant of stock options to employees. The fair value of options is determined using the Black-Scholes option pricing model and is amortized to earnings over the vesting period with an offset to contributed surplus. For options that are forfeited before vesting, the compensation expense that has previously been recognized in operating expenses and capital stock is reversed. When options are exercised, the corresponding contributed surplus and the proceeds received by the Corporation are credited to capital stock.

Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates then prevailing. The resulting translation gains or losses are recognized in the determination of net earnings.

Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, future income taxes assets and liabilities are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax bases, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are recognized to the extent it is more likely than not they will be realized.

Earnings per share

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares outstanding during the year. The Corporation uses the treasury stock method for calculating diluted earnings per share. Diluted earnings per share are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year. All share and per share amounts presented herein have been adjusted to reflect the subdivision of shares for all periods presented.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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. Significant areas requiring the use of management's estimates relate to valuation of assets acquired and liabilities assumed in business acquisitions, impairment of assets, useful lives for depreciation and amortization and future income taxes.

3. CHANGES IN ACCOUNTING POLICIES

- a) The Canadian Institute of Chartered Accountants ("CICA") has issued the following new accounting standards, which came into effect on January 1, 2007 for the Corporation. The Corporation reviewed all its material contracts since January 1, 2004. The adoption of these new standards had no impact on the Corporation's consolidated financial statements.
- i) Section 3855, *Financial Instruments – Recognition and Measurement*. This Section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Under the new standard, financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The Corporation has made the following classification:

- Cash and cash equivalents and financial derivatives are classified as assets or liabilities held for trading. Funds held in reserve, which are included in other long-term assets, are also included in this category. These items are measured at fair value; gains or losses arising from the revaluation at the end of each period are recorded in consolidated net earnings.
 - Accounts receivable and distribution receivable and loan to third party, which are included in other long-term assets are classified as loans and receivables and are measured at amortized cost.
 - Bank loan, accounts payable and accrued liabilities, construction holdbacks and long-term debt are classified as other financial liabilities. They were initially measured at fair value and are now recorded at amortized cost.
- ii) Section 1530, *Comprehensive Income*. This Section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions other than those resulting from investments by shareholders and dividends to shareholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments.
- iii) Section 3865, *Hedges*. This Section describes when and how hedge accounting can be applied, as well as disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. The Corporation did not designate any of its financial instruments for accounting purposes as hedges.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

b) Adoption of new accounting policies

CICA Handbook Section 3862 *Financial Instruments – Disclosures* establishes disclosure standards for financial instruments, including information concerning fair value and related credit, liquidity and market risks. Section 3863 *Financial Instruments – Presentation* establishes standards for the presentation of financial instruments and non-financial derivatives.

Both of these Sections apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Corporation adopted these standards prospectively on December 31, 2007. Due to the prospective adoption of Section 3862, additional information was presented in Note 18 concerning financial instruments.

c) Future accounting changes

CICA Handbook Section 1535 *Capital Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate its objectives, policies and processes for managing capital. This Section applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Corporation does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

CICA Handbook Section 3064, *Goodwill and Intangible Assets*, replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section, issued in February 2008, will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation will adopt the new standard for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation is currently assessing the future impact of this new standard on its consolidated financial statements.

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies will be converged to International Financial Reporting Standards («IFRS»). The official changeover date from current Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Corporation will convert to these new standards according to the timetable set with these new rules. The Corporation is currently assessing the future impact of these new standards on its consolidated financial statements.

4. BUSINESS ACQUISITION

Pursuant to its initial public offering on December 6, 2007, the Corporation issued 10,455,000 common shares at a price of \$11.00 per share for net proceeds totalling \$102,967,237 after deducting underwriters' fees of \$6,037,763 and expenses related to the offering of \$6,000,000. Concurrently with the closing of the offering, Institutional Investors subscribed by way of a private placement for an additional 5,342,620 common shares of the Corporation at the offering price for an aggregate amount of \$58,768,822.

The Corporation used the net proceeds and the proceeds from the private placement to complete the following transactions:

	\$
Repayment or purchase of promissory notes owed by Innergex II Income Fund	123,875,000
Funding of equity in projects under development	30,000,000
Dividends to shareholders of the Corporation	3,781,079
Working capital and general corporate purposes	4,079,980
	161,736,059

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

Immediately before the acquisition, the Corporation held 13,235 units of Innergex II Income Fund, accounted at cost, for \$13,235 and received a distribution on those units for an amount of \$4,330,478.

At the closing of the offering, the Corporation acquired from the Institutional Investors their equity interests in Innergex II Income Fund, which represent 85 % of the outstanding units. Innergex II Income Fund is now wholly owned by the Corporation. The acquisition price of \$63,364,165 was paid to the Institutional Investors by the issue of 5,760,379 common shares at the offering price.

The acquisition of Innergex II Income Fund has been accounted for using the purchase method at its respective acquisition cost on December 6, 2007. The earnings and comprehensive earnings of Innergex II Income Fund have been consolidated with the Corporation's results since the date of acquisition. The total purchase price was preliminary allocated as follows:

	\$
Cash and cash equivalents	(764,390)
Net working capital	1,936,223
Property, plant and equipment	107,212,085
Intangible assets	40,856,883
Project development costs	36,586,610
Investments in an entity subject to significant influence	61,700,782
Goodwill	30,552,578
Other long-term assets	2,402,584
	280,483,355
Construction holdbacks	(3,015,097)
Derivative financial instruments	(1,514,638)
Long-term debt	(204,569,000)
Future income taxes	(8,002,220)
	(217,100,955)
Minority interest	(5,000)
Elimination of the 15% investment held in Innergex II Income Fund upon consolidation of wholly owned subsidiary	(13,235)
Net assets acquired	63,364,165
Additional information	
Unpaid property, plant and equipment acquired	10,207,659
Unpaid project development costs acquired	497,496
Unpaid assets acquired	10,705,155

The purchase price allocated to goodwill has no tax base and is related to the development and management of sites.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

5. ACCOUNTS RECEIVABLE

	December 31, 2007	December 31, 2006
	\$	\$
Trade	493,329	21,942
Income tax	27,831	–
Receivables from an entity subject to significant influence	1,782,480	215,568
Receivables from related party	–	276,734
Commodity taxes	1,330,145	–
Investment tax credits	1,715,311	–
Notes receivable from an entity subject to significant influence, without interest	14,008,567	–
Others	218,430	–
	19,576,093	514,244

Substantially all of the trade receivables are from Ontario Power Authority. The Ministry of Energy of the Province of Ontario has stated that the Province of Ontario, which currently holds a credit rating of AA from S&P, will honour Ontario Power Authority obligations under the Purchase Power Agreements to which it is a party.

Commodity taxes and investment tax credits are receivables from the Crown or provincial governments.

Notes receivable and receivables from an entity subject to significant influence are from subsidiaries of Innergex Power Income Fund in which the Corporation owns a 16.1 % interest.

The Corporation didn't record any allowance for doubtful accounts since, based on its experience, there is a low risk of doubtful accounts. The Corporation doesn't hold any specific guarantees for its accounts receivable.

6. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2007		December 31, 2006	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	\$	\$	\$	\$
Hydroelectric facilities	18,813,743	50,303	18,763,440	–
Hydroelectric facilities under construction	81,941,014	–	81,941,014	–
Wind farms under construction	10,139,750	–	10,139,750	–
Other equipments	1,216,304	637,180	579,124	606,418
	112,110,811	687,483	111,423,328	606,418

Property, plant and equipment include financing costs of \$322,824 (nil in 2006).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

7. INTANGIBLE ASSETS

	December 31, 2007		December 31, 2006	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Intangibles related to hydroelectric facilities	6,220,037	24,123	6,195,914	–
Intangibles related to hydroelectric facilities under construction	23,085,598	–	23,085,598	–
Intangibles related to wind farms under construction	11,551,248	–	11,551,248	–
	40,856,883	24,123	40,832,760	–

8. PROJECT DEVELOPMENT COSTS

	December 31, 2007	December 31, 2006
	\$	\$
Projects under development	21,829,859	–
Intangibles related to projects under development	15,505,727	–
	37,335,586	–

9. INVESTMENT IN AN ENTITY SUBJECT TO SIGNIFICANT INFLUENCE

On December 6, 2007, the Corporation acquired 4,724,409 units representing 16.1 % of the units issued by Innergex Power Income Fund. The Corporation provides management and administration services to Innergex Power Income Fund as described in Note 17 and is represented on its Board of Trustees.

The equity interest acquired in Innergex Power Income Fund represents an investment subject to significant influence, which is accounted for using the equity method from the date of the transaction, December 6, 2007. The investment was initially recorded at cost, and adjustments are made to include the Corporation's share of Innergex Power Income Fund's net earnings or loss. The Corporation's share of Innergex Power Income Fund's net earnings or loss is adjusted to reflect the amortization of the fair value adjustments related to the fair value of the Corporation's share of the net identifiable asset of Innergex Power Income Fund acquired.

The total cost is allocated to the Corporation's share of net identifiable assets acquired on the basis of their fair values, using the purchase method of accounting. The purchase price allocations are preliminary and are subject to changes once the final valuations of the net identifiable assets acquired and the working capital and other purchase price adjustments have been made.

The preliminary allocation of the excess of the cost of the investment in Innergex Power Income Fund over the underlying net book value of assets acquired amounted to \$26,186,227 as at December 6, 2007, consisting mainly of the intangible assets of \$23,464,266, future income tax liabilities of \$7,273,922 and incremental goodwill of \$9,995,883.

The investment in Innergex Power Income Fund is detailed as follows:

	December 31, 2007	December 31, 2006
	\$	\$
Innergex Power Income Fund at cost	61,700,782	–
Share of net earnings	1,823,354	–
Distribution	(379,923)	–
	63,144,213	–

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

9. INVESTMENT IN AN ENTITY SUBJECT TO SIGNIFICANT INFLUENCE (CONTINUED)

The Corporation's share in the results of Innergex Power Income Fund for the 26 day period ended December 31, 2007 amounted to \$1,823,354 and is comprised of the following elements:

	December 31, 2007
	\$
Share of operating results of Innergex Power Income Fund	1,062,694
Non-recurring adjustment related to decrease in tax rates applicable to the investment in Innergex Power Income Fund	821,249
Amortization of intangibles	(83,571)
Adjustment related to decrease of tax on intangibles	22,982
Share of net earnings	1,823,354

The share of operating results of Innergex Power Income Fund includes a non-recurring adjustment related to a decrease in tax rates of \$1,078,739.

10. BANK LOAN

A subsidiary of the Corporation has an authorized line of credit up to a maximum of \$20 million secured by a hypothec on the universality of its investments and receivables, excluding the assets already pledged as guarantees under other secured long-term debt. The credit facility is renegotiable annually and bears interest at the prime rate plus a margin for a total of 6.25% as at December 31, 2007. On December 31, 2007, a portion of \$6.5 million of this line of credit was used to secure letters of credit and a portion of \$4.25 million was used to secure bond forward contracts. The unused and available portion of the bank credit facility is \$7.25 million. The bank loan includes financial and non-financial covenants that may restrict the use of the borrower's cash flows.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2007	December 31, 2006
	\$	\$
Trade and accrued liabilities	13,704,194	826,225
Current portion of construction holdbacks	1,118,714	-
Accounts payable to an entity subject to significant influence	1,434	-
Accounts payable to an entity under common management	-	521,395
	14,824,342	1,347,620

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

12. LONG-TERM DEBT

	December 31, 2007	December 31, 2006
	\$	\$
Glen Miller Power, Limited Partnership (a)	17,000,000	–
Umbata Falls Limited Partnership (b)	15,435,000	–
Ashlu Creek Investments Limited Partnership (c)	48,700,000	–
Note payable to a shareholder, bearing interest at 8%, repaid during the year	–	250,000
Note payable to a corporation under common control, bearing interest at 8%, repaid during the year	–	350,000
	<u>81,135,000</u>	<u>600,000</u>
Current portion of long-term debt	–	250,000
	<u>81,135,000</u>	<u>350,000</u>

(a) Glen Miller Power, Limited Partnership

The long-term debt relates to a loan made to provide construction and long-term financing.

During 2006, the loan was converted from a construction loan to a term loan, consisting of sixty monthly blended payments of capital and interest based over a twenty-year period of amortization with a five-year term maturing in 2011. The capital repayments were waived for a five-year period unless the conditions required by the lender are not respected. The term loan is set at a variable rate, which is equal to the bankers' acceptance plus 140 basis points for a total of 6.15% as at December 31, 2007.

Glen Miller Power, Limited Partnership granted a first-ranking hypothec and security interest in the amount of \$20,400,000 affecting the universality of all property and assets related to Glen Miller Power, Limited Partnership project. The net book value of the property and assets as at December 31, 2007 is approximately \$25,400,000.

(b) Umbata Falls Limited Partnership

A lender agreed to make available to Umbata Falls Limited Partnership, a term credit facility in a principal amount not exceeding \$51,000,000 (the share of the Corporation is 49%). The loan advances are made in the form of bankers' acceptances ("BA") for periods of approximately 30, 60, 90 or 180 days. Interest on any BA equivalent advance shall be calculated at a rate per annum equal to the BA equivalent rate which was 5.61% as at December 31, 2007. Interest on any BA equivalent advance shall be payable in advance on the first day of the interest period.

The lender agreed to make available until six months after commissioning, a revolving credit facility in a principal amount not exceeding \$1,000,000. This amount has not been used as at December 31, 2007.

The lender also agreed to make available, a letter of credit facility in a principal amount not exceeding \$1,200,000, until six months after commissioning and thereafter in a principal amount not exceeding \$500,000 until five years after completion, which is defined as beginning six months after commissioning. As at December 31, 2007, an amount of \$1,170,875 has been used to secure two letters of credit.

The security constituted by the security documents comprises a valid and perfected first-ranking charge or security interest upon the interests of Umbata Falls Limited Partnership on all of the property and assets of the partnership and its nominees. As at December 31, 2007, the net book value of the property and assets of Umbata Falls Limited Partnership, which is under construction as at December 31, 2007, totals approximately \$51,700,000 (the share of the Corporation is 49%).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

12. LONG-TERM DEBT (CONTINUED)

(c) Ashlu Creek Investments Limited Partnership

Lenders agreed to make available to Ashlu Creek Investments Limited Partnership, a term credit facility in a principal amount of up to but not exceeding \$110 million. The prime rate advances are made pursuant to accommodation requests given by the borrower. Ashlu Creek Investments Limited Partnership shall pay interest on the unpaid principal amount of each prime rate advance at an annual rate equal to the sum of the prime rate in effect from time to time plus the applicable margin, for a total of 5.78% as at December 31, 2007 and payable when such prime rate advances becomes due and payable in full.

The lenders also agreed to make available a letter of credit facility ("LC Facility"), on a revolving basis by way of letters of credit in the principal amount not exceeding \$3 million, until the final maturity date of the LC Facility, which is the fifteenth anniversary of the term conversion date as defined in the credit agreement. As at December 31, 2007 an amount of \$2,972,654 has been used to secure five letters of credit.

This loan is secured by a demand debenture in the principal amount of \$175 million, creating a first-priority fixed and specific mortgage, charge and assignment of, and grant of a security interest in all the rights, titles and interest of Ashlu Creek Investments Limited Partnership and its General Partners in the project assets and all other assets, including a deed of hypothec granted by the same parties creating a first-priority fixed and specific hypothec with respect to the same personal property.

As at December 31, 2007, the net book value of the property and assets of Ashlu Creek Investments Limited Partnership, which is under construction, totals approximately \$74,200,000.

Principal Repayments

As at December 31, 2007, the expected principal repayments required for the long-term debt in each of the forthcoming years are as follows:

	\$
2008	–
2009	950,050
2010	2,565,400
2011	19,565,400
2012	2,565,400
Thereafter	55,488,750
Total	81,135,000

13. INCOME TAXES

The provision for income taxes shows an effective income tax rate different from the rate computed under Canadian income tax legislation. The reasons for the difference between the statutory rate and the effective rate are as follows:

	December 31, 2007	December 31, 2006
	\$	\$
Earnings before provision for income taxes	6,192,430	238,573
Canadian statutory tax rate	32.02%	32.02%
Provision for income taxes computed under the statutory tax rate	1,982,816	76,391
Earnings taxable at a lower rate than the Canadian statutory tax rate	(946,822)	–
Reduction in future income tax rates	(464,274)	–
Small business deduction	–	(29,043)
Non-deductible expenses	48,984	9,161
Others	25,350	3,301
Provision for income taxes	646,054	59,810

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

The tax impact of temporary differences resulting in material future tax assets or liabilities is as follows:

	December 31, 2007	December 31, 2006
	\$	\$
Future income tax assets		
Non-capital losses	4,228,024	–
Excess of tax basis of financing fees over their carrying value	3,983,531	–
Excess of tax basis of property, plant and equipment over their carrying value	–	27,984
Excess of tax basis of derivative financial instruments over their carrying value	1,358,418	–
Future income tax assets	9,569,973	27,984
Future income tax liabilities		
Excess of carrying value of investment into subsidiaries and an entity subject to significant influence over their tax basis	683,789	–
Excess of carrying value of property, plant and equipment over their tax basis	1,391,750	–
Excess of carrying value of intangible assets over their tax basis	11,566,009	–
Excess of carrying value of project development costs over their tax basis	530,671	–
Future income tax liabilities	14,172,219	–
Net future income tax (liabilities) assets	(4,602,246)	27,984
Reported in the financial statements	December 31, 2007	December 31, 2006
Long-term future income taxes assets	3,214,616	27,984
Long-term future income taxes liabilities	(7,816,862)	–
Net future income taxes (liabilities) assets	(4,602,246)	27,984

As at December 31, 2007, the Corporation and its subsidiaries have income tax losses of approximately \$15,400,000, which may be used to reduce future years' taxable income. These losses expire up to 2027.

14. SHARE CAPITAL

Authorized

The authorized capital of the Corporation consists of an unlimited number of common shares and an unlimited number of preferred shares, non-voting, retractable and redeemable.

On December 4th, 2007 prior to the closing of the initial public offering, the Corporation amended its share capital as follows:

- a) by creating an unlimited number of common shares;
- b) by creating an unlimited number of preferred shares, issuable in series;
- c) by converting the 8,081 issued Class B shares into 1,942,001 common shares, on the basis of 240.3169162 common shares for each issued Class B share;
- d) by cancelling the Class B shares as a class; and
- e) the Corporation also redeemed the Class A share for \$1 and cancelled the Class A shares as a class.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

14. SHARE CAPITAL (CONTINUED)

Prior to December 4, 2007, the authorized capital was comprised of:

Class A shares, voting and non-participating. In the event of liquidation, dissolution or wind up of the Corporation, the holders of Class A shares were entitled to receive an amount equal to the amount paid thereon per share.

Class B shares, non-voting, participating and ranked after Class A in the event of liquidation, dissolution or wind up of the Corporation.

	December 31, 2007	December 31, 2006
	\$	\$
Issued		
23,500,000 Common shares (nil in 2006)	228,807,842	-
Nil Class A share (1 in 2006)	-	1
Nil Class B shares (5,657 representing 1,359,473 after conversion in 2006)	-	6,845
	228,807,842	6,846

On March 1, 2007, the Corporation issued 2,424 shares representing 582,528 Class B shares after conversion for a cash consideration of \$2,424.

All share and per share amounts presented herein have been adjusted to reflect the subdivision of shares for all periods presented.

The following table shows the common shares issued during the year:

	December 31, 2007		December 31, 2006	
	Number	\$	Number	\$
Beginning of year	-	-	-	-
Issued on December 4, 2007				
upon conversion of 8,081 Class B Shares	1,942,001	9,269	-	-
Issued on December 6, 2007 by a public offering	10,455,000	115,005,000	-	-
Issued on December 6, 2007 by a private placement	11,102,999	122,132,989	-	-
Issuance costs (net of \$3,698,347 of income tax)		(8,339,416)		-
End of year	23,500,000	228,807,842	-	-

i) Contributed surplus

	December 31, 2007	December 31, 2006
	\$	\$
Beginning of year	-	-
Fair value of stock-based compensation	130,302	-
Stock options exercised	-	-
End of year	130,302	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

ii) Stock option plan

The Corporation has a stock option plan providing for the granting of options by the Board of Directors to employees, officers, directors and certain consultants of the Corporation and its subsidiaries to purchase common shares. Options granted under the stock option plan will have an exercise price of not less than the market price of the common shares at the date of grant of the option, calculated as the volume weighted average trading price of the common shares on the TSX for the five trading days immediately preceding the date of grant.

The maximum aggregate number of shares that may be subject to options under the stock option plan will be 2,350,000, representing 10% of the issued and outstanding common shares. The number of common shares issuable to insiders under the stock option plan cannot at any time exceed 10% of the issued and outstanding common shares and cannot within any one-year period exceed 10% of the issued and outstanding common shares. Any common shares subject to an option that expires or terminate without having been fully exercised may be made the subject of a further option. The number of common shares issuable to non-executive directors of the Corporation under the stock option plan cannot at any time exceed 1% of the issued and outstanding common shares.

Options must be exercised during a period established by the Board of Directors, which may not be greater than ten years after the date of grant. Subject to the discretion of the Board of Directors, options granted under the stock option plan will vest in four equal amounts on a yearly basis over the four years following the grant date.

	December 31, 2007		December 31, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding - beginning of year	-	-	-	-
Granted	1,410,000	11	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding - end of year	1,410,000	11	-	-
Options exercisable - end of year	-	-	-	-

The following options were outstanding and exercisable as at December 31, 2007.

	Outstanding		Exercisable		
	Number of Options	Exercise Price	Number of Options	Exercise Price	Year of Maturity
		\$		\$	
2007	1,410,000	11	-	-	2017

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

14. SHARE CAPITAL (CONTINUED)

iii) The Corporation applies the fair value method of accounting for options granted to senior management, which is estimated using the Black-Scholes option-pricing model. An amount of \$130,302 was recorded as compensation costs and credited to contributed surplus of the Corporation to account for the options granted during the year ended December 31, 2007.

The following assumptions were used to estimate the fair value, at the date of grant, of the options issued to grantees:

Risk-free interest rate	4.3 %
Expected annual dividend	nil
Expected life of options	4 to 7 years
Expected volatility	29.7 % to 36 %
Weighted average fair value per option	\$4.44

For the purpose of compensation expense, stock-based compensation is amortized to expense on a straight-line basis over the vesting period of four years.

15. REFUND OF REFUNDABLE DIVIDEND TAX ON HANDS

As long as the Corporation remained classified as a Canadian-controlled private corporation under the *Income Tax Act*, a portion of its income taxes was recoverable when taxable dividends were paid to shareholders. These taxes were charged to retained earnings and recoveries were credited to retained earnings. The amount of accumulated refundable taxes of \$273,410 was recovered as at December 31, 2007.

16. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash operating working capital items	December 31, 2007	December 31, 2006
	\$	\$
Accounts receivable	2,205,730	(45,121)
Prepaid and others	79,017	(5,753)
Accounts payable and accrued liabilities	28,505	(93,635)
	2,313,252	(144,509)
Additional information		
Interest paid	266,870	20,175
Income taxes paid	154,822	546,082
Non-cash transactions		
Unpaid property, plant and equipment	9,129,723	15,984
Unpaid development costs	664,847	–

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

17. RELATED PARTY TRANSACTIONS

The Corporation has entered into the following transactions with entities under significant influence and related parties:

	December 31, 2007	December 31, 2006
	\$	\$
Innergex Power Trust (i)		
Regular services	887,184	873,814
Business acquisition fees	272,381	327,760
Additional services	111,492	78,710
Incentive fees	334,315	329,065
Total management fees revenues	1,605,372	1,609,349
Innergex Power Income Fund (ii)		
Management fees revenues	108,858	107,218
Innergex II Income Fund (iii)		
Management fees revenues	4,333,846	4,520,428
	6,048,076	6,236,995
Innergex II Income Fund (iv)		
Incentive sharing agreement expense	89,952	90,493
Accounts receivable from related parties:		
Innergex II Income Fund	-	276,734
Accounts receivables from other companies subject to significant influence:		
Innergex Power Trust	335,332	6,973
Innergex Power Income Fund	413,665	55,598
Other entities subject to significant influence	1,033,483	152,997
	1,782,480	492,302
Accounts payable to related parties:		
Innergex II Income Fund:		
Incentive fees payable	-	90,493
Accounts payable	-	430,902
Accounts payable to a company subject to significant influence	1,434	-
	1,434	521,395

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

17. RELATED PARTY TRANSACTIONS (CONTINUED)

These transactions were made in the normal course of business and have been recorded at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

The Corporation provides management and administrative services under the terms of management and administration agreements.

(i) Management Agreement

Under the terms of the Management Agreement, the Corporation provides services to Innergex Power Trust ("IPT"). The Corporation (i) supervises the operation of the facilities and administers the investments of IPT; (ii) assists IPT in the development, implementation and monitoring of a strategic plan for IPT; (iii) assists IPT in developing an annual business plan, which includes operational and capital expenditure budgets; (iv) assists IPT in developing acquisition strategies and investigation of potential acquisitions and analysis of feasibility of potential acquisitions; (v) supervises the carrying out of acquisitions, the disposition of assets and related financings required for such transactions; (vi) assists in connection with any financing of IPT or Innergex Power Income Fund ("the Fund"); and (vii) assists IPT with the preparation, planning and co-ordination of trustees' meetings. Under the Management Agreement, the Corporation is entitled to reimbursement of its regular operating expenses incurred in connection with its duties, up to a maximum annual amount, which is subject to an annual increase equal to the inflation rate of the Consumer Price Index ("CPI"). The maximum annual chargeable amount for regular services was established at \$886,922 for the year ending December 31, 2007 (\$873,814 in 2006). Amounts have been invoiced for business acquisitions and additional services not included in the regular services. The Corporation is also entitled to an annual incentive fee based on increases in distributable cash per trust unit of the Fund. The incentive fee is equal to 25% of the annual distributable cash per trust unit of the Fund in excess of \$0.925 per trust unit. The incentive fee related to increases in distributable cash per trust unit of the Fund is intended to provide the Corporation with an incentive to maximize distributable cash per trust unit.

The Management Agreement has an initial twenty-year term ending July 2023 and is subsequently renewable for successive periods of five years. The Management Agreement was extended until July 2030 when the initial public offering of the Corporation was successfully completed on December 6, 2007. The incentive fee is now calculated on the distributable cash before income taxes related to the taxation of public trusts amendments adopted in 2007. All invoiced amounts for regular services, business acquisitions, additional services and incentive fees are shown on the summary on the previous page.

(ii) Administration Agreement

Under the terms of the Administration Agreement, the Corporation provides certain administrative and support services to the Fund, including those necessary to (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation; (ii) provide investor relation services; (iii) provide or cause to be provided to unitholders of the Fund all information to which unitholders are entitled, including relevant information with respect to income taxes; (iv) call and hold meetings of unitholders of the Fund and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to unitholders of the Fund; (vi) attend to all administrative and other matters arising in connection with any redemptions of trust units of the Fund; and (vii) ensure compliance with the Fund's limitations on non-resident ownership.

All operating expenses incurred by the Corporation in connection with the provision of these services are for the account of the Fund up to a maximum annual amount, which is subject to an annual increase equal to the inflation rate of the CPI. The maximum annual chargeable amount was established at \$108,858 for the year ending December 31, 2007 (\$107,218 in 2006). The Corporation is also entitled to reimbursement of reasonable out-of-pocket expenses incurred on behalf of the Fund such as legal and auditing expenses. The Administration Agreement has an initial twenty-year term ending July 2023 and is subsequently renewable for successive periods of five years. The Management Agreement was extended until July 2030 when the initial public offering of the Corporation was successfully completed on December 6, 2007.

(iii) Management fee revenues - Prior to December 6, 2007

All operating costs not recovered by Innergex Renewable Energy Inc. were charged to Innergex II Income Fund.

(iv) Incentive Sharing Agreement - Prior to December 6, 2007

Under the terms of the Incentive Sharing Agreement, the Corporation was obliged to pay 27.5% of the incentive received under the Management Agreement to Innergex II Income Fund.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

18. FINANCIAL INSTRUMENTS

a) Risk management

The Corporation's financial risk management objective is to mitigate risk exposures to a level consistent with its risk tolerance.

Financial risk is the risk to the earnings of the Corporation that arises from fluctuation in interest rates and the degree of volatility of these rates. During the course of business, the Corporation uses a credit facility to finance its activities. The Corporation uses interest rate forward contracts to reduce its exposure to interest rate risk. The Corporation does not hold or issue financial instruments for trading purposes.

The terms of the contracts are as follows:

Face Value of Contracts Reducing Risk of Interest Rate Fluctuations	December 31, 2007
	\$
<i>Bonds forwards</i>	
Six bonds forwards bearing interest at 4.14% to 4.37%, maturing on June 17, 2008	95,000,000
A bond forward bearing interest at 4.45%, maturing on June 20, 2008, with a collateral of \$2,300,000 that was put down towards the bond	25,000,000
A bond forward bearing interest at 4.48%, maturing on June 25, 2008	20,000,000
	140,000,000
<i>Interest rate swap</i>	
An interest rate swap bearing interests at 4.10 %, maturing on June 1, 2009, with a collateral of \$1,950,000 that was put down towards the swap	36,200,000
	176,200,000

b) Fair value of financial instruments

In order to mitigate the risk of any fluctuations in interest rates, the Corporation entered into eight bond forward contracts and an interest rate swap, for a total debt amount covered of \$176.2 million (nil in 2006). As at December 31, 2007, the negative value of the outstanding bond forward contracts based on market rates is \$3,501,225 (nil in 2006) and the negative value of its interest rate swap is \$1,455,974 (nil in 2006). These amounts are accounted for on the balance sheet under derivative financial instruments and the variation in value is included in the statement of earnings under gain on derivative financial instruments. The counterparties to the bond forward contracts and the interest rate swap contract are major financial institutions; the Corporation does not anticipate any payments defaults on their part.

Rutherford Creek Power Limited Partnership has agreed, following the expiry or termination of the Rutherford Creek power purchase agreement in June 2024, to pay to the Corporation royalties based on the achievement of certain revenue thresholds. As at December 31, 2007, the fair value of this financial instrument is \$663,492 (nil in 2006). This amount is accounted for on the balance sheet under other long-term assets and the variation in value is included in the statement of earnings under gain on derivative financial instruments. The payment of the royalties is secured by the facility, but is subordinated to a \$50,000,000 term loan.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

18. FINANCIAL INSTRUMENTS (CONTINUED)

The following is a summary of the financial derivative instruments:

Derivative Financial Instruments	Royalties	Bond Forward	Interest Rate Swap	Total
	\$	\$	\$	\$
Assets - derivative financial instruments				
Balance as at December 31, 2006	–	–	–	–
Asset acquired on December 6, 2007	656,205	–	–	656,205
Current year's unrealized gain presented in the consolidated statement of earnings	7,287	–	–	7,287
Balance of long-term assets as at December 31, 2007 (included in other long-term assets)	663,492	–	–	663,492
Liabilities - derivative financial instruments				
Balance as at December 31, 2006	–	–	–	–
Liabilities assumed on December 6, 2007	–	4,010,072	1,514,638	5,524,710
Current year's unrealized gain presented in the statement of earnings	–	508,847	58,664	567,511
Balance as at December 31, 2007	–	3,501,225	1,455,974	4,957,199
Minus:				
Short-term portion	–	3,501,225	–	3,501,225
Balance of long-term liabilities as at December 31, 2007	–	–	1,455,974	1,455,974

The fair value of cash and cash equivalents, accounts receivable, prepaid and others, bank loan and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturities.

The fair value of the long-term debt approximates its carrying value as it bears interest at variable rates and has financing conditions similar to those currently available to the Corporation.

c) Credit risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract.

The cash and cash equivalents are held by large Canadian financial institutions with high credit ratings.

The accounts receivable and their related risks are described in more details in Note 5.

The derivative financial instruments and their related risks are described in more details in Note 18 (b).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

d) Liquidity risk

The liquidity risk is related to the sufficiency of liquid assets that permits the Corporation to meet the payments of its liabilities as they occur. Certain financial restrictive clauses could prevent the Corporation from having access to the cash and cash equivalents of its subsidiaries.

The Corporation has a positive working capital that allows the settlement of the liabilities when required. It also possesses a credit facility, described in Note 10, which allows it to obtain funds on short notice if needed.

The table that follows presents an analysis of the maturity of the financial liabilities:

	Up to 3 months	More than 3 months but less than a year	More than a year but less than five years
	\$	\$	\$
Bank loan	2,000,000	–	–
Accounts payable and accrued liabilities	12,696,272	2,128,071	–
Derivative financial instruments	–	3,501,225	1,455,974
Construction holdbacks	–	–	1,989,626
Long-term debt	–	–	25,646,250
Total	14,696,272	5,629,296	29,091,850

e) Market risks

The market risks for the sites in operation are linked to the availability of the intrants and the sale of the extrants. The Corporation has long-term contractual agreements for the sites it operates. The Corporation uses few other intrants necessary to its operations. The sale of electricity is made pursuant to long-term agreements where the offtakers are committed to take and pay for the total production, up to certain annual limits.

Market risks linked to the development of sites and construction are affected by many factors, including the price of power from other sources, the cost of materials needed to develop the electric generating facilities and the availability of sites to be bid for in eventual future request for proposals to be made by public utilities.

19. COMMITMENTS

a. Delivery of electricity pursuant to the electricity purchase agreements

The Corporation's subsidiaries or joint ventures are contractually committed to sell all of the electricity that will be produced to either British Columbia Hydro and Power Authority, Hydro-Québec or Ontario Power Authority for periods extending from 20 to 40 years after commissioning.

b. Wind farm facilities

Construction agreements

Subsidiaries or joint ventures of the Corporation entered into electricity purchase agreements with Hydro-Québec. In order to fulfill its obligation under these agreements, the Corporation will need to develop and construct wind powered facilities. Collectively with TransCanada Energy Ltd ("TransCanada") (the share of the Corporation is 38%), the Corporation entered into various agreements related to the acquisition of the turbines, the construction and the operation of the wind farms.

The subsidiaries or joint ventures are also committed under options on leases for projects under development.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

19. COMMITMENTS (CONTINUED)

c. Ashlu Project

Construction contracts

Ashlu Creek Investments Limited Partnership entered into several contracts in order to construct an hydroelectric power generating facility.

Participation agreement

Pursuant to an agreement with Ashlu Creek Investments Limited Partnership, the Squamish First Nation is entitled to a royalty based on revenues of the Ashlu Creek Project commencing on the commercial in-service date. The Squamish First Nation is also entitled to an incremental share of gross revenues exceeding a yearly threshold of gross revenues set out in the agreement. The agreement also requires the assets of the Ashlu Creek Project to be transferred to the Squamish First Nation for a nominal price after 40 years of commercial operation.

d. Glen Miller facility

Lease agreement

Glen Miller Power, Limited Partnership entered into a 30 year lease agreement ending in December 2035 for the site that is now in commercial operation.

Glen Miller Power, Limited Partnership is committed to remit the facility to the lessor of the site, at the end of the thirty-year lease agreement, for no consideration.

e. Umbata Falls Limited Partnership

Investment

The Corporation is committed to invest up to \$9,000,000 in cash in Umbata Falls Limited Partnership to finance the construction of the facility.

Construction contracts

Umbata Falls Limited Partnership entered into several contracts in order to construct an hydroelectric power-generating facility.

Development costs

Umbata Falls Limited Partnership will reimburse development costs related to the site to the Ojibways of the Pic River First Nation upon commissioning of the plant.

f. Kwoiek Creek Resources Limited Partnership

Construction agreement

Following a satisfactory result from the interconnection study, the Corporation will pay to Kwoiek Creek Resources Inc., a non-related company, a compensation on the first day of the second year of the construction phase.

Royalty agreement

Kwoiek Creek Resources Limited Partnership entered into an agreement to pay to Kwoiek Creek Resources Inc. an annual royalty which is based on a percentage of the gross revenues less project costs for the first 20 years after the date of commencement of commercial operations of the Kwoiek Creek Project and an increased royalty for the 20 years thereafter.

For the first 20 years of the operating phase, the partnership will not pay any interest on its subordinated debt nor any distribution on the preferred units unless the royalty has been paid.

Dissolution of the Partnership

Forty years after the beginning of the operations, Kwoiek Creek Resources Limited Partnership will be dissolved (unless otherwise dissolved at an earlier date). Upon the dissolution, the property and assets shall be distributed to the other Partner.

g. Horseshoe Bend Hydroelectric Company ("HBHC")

Pursuant to the sale of its investment in HBHC in 2004, a subsidiary of Innergex II Income Fund, which is now a wholly-owned subsidiary of the Corporation, as a contractor, entered into two service agreements with HBHC. The contracts were completed in 2005 at the entire satisfaction of HBHC. The subsidiary offered a three-year warranty on the work that was performed.

h. Operating lease

The Corporation is engaged under long-term operating leases of premises which will end in 2011.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

i. Summary of commitments

As at December 31, 2007, expected scheduling of commitments payments are:

	Hydroelectric production	Wind farms power production	Development and management of sites	Total
	\$	\$	\$	\$
2008	43,696,437	61,705,160	425,663	105,827,260
2009	18,729,586	1,640,901	425,663	20,796,150
2010	90,203	1,631,455	425,663	2,147,321
2011	592,007	1,648,143	272,685	2,512,835
2012	93,847	949,427	–	1,043,274
Thereafter	1,784,223	3,363,078	–	5,147,301
Total	64,986,303	70,938,164	1,549,674	137,474,141

20. SEGMENT INFORMATION

The Corporation has two reportable segments: (a) hydroelectric production and (b) development and management of sites.

The hydroelectric production segment sells electricity produced from hydroelectric facilities to publicly owned utilities. The development and management of sites segment explores potential sites, develops them to the operational stage and manages them.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation evaluates performance based on earnings before interest, income taxes, depreciation and amortization and other items. The Corporation accounts for intersegment and management sales at cost. Any transfers of assets from the development and management of sites segment to the hydroelectric production segment are accounted for at cost.

The Corporation's reportable segments are operating using different means of production or type of activities. They are managed by different teams as they require different skills to operate them.

	Year ended December 31, 2007		
	Hydroelectric production	Development and management of sites	Total
	\$	\$	\$
Revenues from external customers	168,673	7,880,169	8,048,842
Operating expenses	50,076	–	50,076
Operating income	118,597	7,880,169	7,998,766
General and administrative expenses	2,855	6,311,119	6,313,974
Earnings before interest, income taxes, depreciation and amortization and other items	115,742	1,569,050	1,684,792
Long-term assets	25,313,901	263,349,920	288,663,821
Goodwill	–	30,552,578	30,552,578
Total assets	25,571,910	317,687,597	343,259,507
Acquisitions of long-term assets	–	4,480,188	4,480,188

There were no segments in 2006 since those were acquired on December 6, 2007.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

21. INVESTMENTS IN JOINT VENTURES

Joint ventures' activities

The consolidated financial statements of the Corporation include its proportionate share of assets, liabilities, revenues and expenses of the joint ventures' activities. The amounts included in these financial statements with respect to joint ventures are as follows:

	December 31, 2007	December 31, 2006
	\$	\$
Assets		
Current	3,736,806	-
Long-term	54,084,421	-
	57,821,227	-
Liabilities		
Current	3,233,752	-
Long-term	16,890,974	-
	20,124,726	-
Earnings		
Revenues	10,419	-
Derivative financial instruments	41,513	-
Expenses	(72,831)	-
Net loss	(20,899)	-
Cash Flows		
Operating activities	(639,111)	-
Financing activities	382,336	-
Investing activities	(2,264,237)	-

22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

Glossary

“**Canadian GAAP**” means Canadian generally accepted accounting principles;

“**Development Projects with PPAs**” means the hydroelectric and wind power generating projects of the Corporation described in this annual report for which PPAs have been secured and which are either under construction or have planned dates for the commencement of commercial operations;

“**Fund**” means Innergex Power Income Fund and its subsidiaries;

“**GW**” means one billion watts, 1,000 MW or one gigawatt;

“**GWh**” means one gigawatt per hour;

“**Innergex II**” means Innergex II Income Fund and its subsidiaries;

“**kV**” means one kilovolt or 1,000 volts;

“**KWh**” means one kilowatt per hour or 1,000 watts per hour;

“**MW**” means one million watts or one megawatt;

“**OPA**” means Ontario Power Authority;

“**Operating Facilities**” means the power generating facilities in which the Corporation has an economic interest and which have reached the stage of commercial operation;

“**PPA**” means a power purchase agreement, an electricity supply agreement, an electricity purchase agreement or a renewable energy supply contract;

“**Prospective Projects**” means the hydroelectric or wind power projects of the Corporation which have secured certain land rights or for which an application for an investigative permit has been submitted or for which a proposal has been submitted under an RFP;

“**Renewable Portfolio Standards**” or “**RPS**” means such standards, policies, goals or regulations, established by the respective government or entity established by the government for such purpose, targeting or mandating the development of, increase in, or purchase of renewable forms of electricity generation in such province;

“**RFP**” means a request for proposals;

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

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

“**TWh**” means 1,000 gigawatts per hour or one million megawatts per hour.

General Information

Certain statements in this annual report are forward-looking statements subject to risks, uncertainties, and other important factors that could cause Innergex Renewable Energy Inc.'s actual performance to differ materially from those expressed in, or implied by, such forward-looking statements. The principal risk factors are discussed in the Management's Discussion and Analysis section of this annual report.

Stock Exchange Listing

Shares of Innergex Renewable Energy Inc. are listed on the TSX under the symbol INE.

Transfer Agent and Registrar

Computershare Trust Company of Canada

1500, University Street, Suite 700, Montreal, Québec H3A 3S8

Telephone: 1 800 564-6253 or 514 982-7555

Email: service@computershare.com

Auditors

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.

Electronic Delivery

Innergex shareholders can elect to receive Innergex Renewable Energy Inc. documents (such as quarterly and annual reports and the proxy circular) in electronic form on the Internet rather than in hard copy by mail. Shareholders wishing to use this service should contact Computershare Trust Company of Canada.

Investor Relations

If you have inquiries, please visit Innergex Renewable Energy Inc.'s Web site at www.innergex.com or contact:

Jean Trudel

Vice President – Finance and Investor Relations

Innergex Renewable Energy Inc.

1111 Saint-Charles Street West, East Tower, Suite 1255, Longueuil, Québec J4K 5G4

Tel.: 450 928-2550

Fax: 450 928-2544

info@innergex.com

Annual Meeting

The Annual General Meeting of unitholders will be held at 3:00 pm on Wednesday June 11, 2008 at:

Club Saint-Denis

Jean-René Ouimet room, 257, Sherbrooke Street East, Montreal, Québec H2X 1E3

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