

annual report

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Profile

Borex Inc. (“Borex” or the “Corporation”) is one of Canada’s largest and most experienced private corporations in the development and production of renewable energy.

The Corporation currently operates 21 power generation sites with a total installed capacity of 351 megawatts (“MW”). Borex was a pioneer in the production of renewable energy, which is the core business of almost all of its operations. It has facilities in Québec, the northeastern United States and France, in three different types of electricity generation: **wind** power (7 sites, 108 MW), **hydroelectric** power (7 power stations, 25 MW) and **thermal** power (7 power stations, 218 MW).

Borex’s growth strategy is based on diversification by segment and by geography, and on its state-of-the-art expertise in the development, acquisition, operation and maintenance of power stations. It employs some 300 highly qualified employees whose energy, talent and innovative spirit constitute its primary asset and assurance of success.

Borex also holds a 23% interest in the Borex Power Income Fund (the “Fund”), for which the Corporation manages 10 power stations with a total installed capacity of 190 MW.

Borex is a public corporation listed on the Toronto Stock Exchange under the ticker symbol BLX. A growth company, it is distinguished by its commitment to the environment and communities, its rigorous asset management and its transparent corporate governance practices.

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Financial Highlights

(in thousands of dollars, unless otherwise specified)

	2007	2006	2005	2004
	(12 MONTHS)	(12 MONTHS) (RESTATED) ⁽¹⁾	(12 MONTHS) (RESTATED) ⁽¹⁾	(15 MONTHS) (RESTATED) ⁽¹⁾
OPERATIONS				
Revenue from energy sales	162,816	120,002	108,696	91,362
Share in earnings of the Fund	6,830	10,023	8,873	11,722
EBITDA ⁽²⁾	60,753	42,822	34,084	12,906
Net earnings (net loss)	21,545	14,721	20,771	(1,891)
Cash flows from operations ⁽²⁾	51,548	24,518	26,219	11,977
INVESTMENTS				
Purchase of property, plant and equipment	22,478	19,201	135,753	41,385
Business acquisitions	–	6,749	18,642	1,585
FINANCIAL POSITION				
Property, plant and equipment	258,712	280,136	260,783	150,611
Investment ⁽³⁾	67,321	75,553	77,997	82,615
Total assets	514,731	476,030	427,838	272,423
Long-term debt	148,747	192,493	164,832	37,994
Shareholders' equity	284,769	182,033	164,093	149,829
CLASS A SHARE DATA				
Net earnings (net loss) from continuing operations per share	\$ 0.63	\$ 0.49	\$ 0.69	\$ (0.05)
Net earnings (net loss) per share (basic)	\$ 0.63	\$ 0.49	\$ 0.69	\$ (0.06)
Shareholders' equity per share outstanding at the end of the period	\$ 7.60	\$ 6.06	\$ 5.47	\$ 5.00
Weighted average number of shares outstanding (in thousands)	34,403	30,034	29,987	29,913
Shares outstanding, end of period (in thousands)	37,455	30,050	29,989	29,987
FINANCIAL RATIO				
Long-term debt to equity	0.52	1.06	1.00	0.25

(1) Comparative figures restated following a change in the accounting policy related to amortization in France adopted in 2007.

(2) EBITDA or Earnings Before Interest, Taxes, Depreciation and Amortization and cash flows from operations are not a measure of performance under Canadian generally recognized accounting principles. Refer to management's discussion and analysis of operating results and financial position on pages 13 and 14.

(3) The investment represents the Corporation's interest in the Fund.

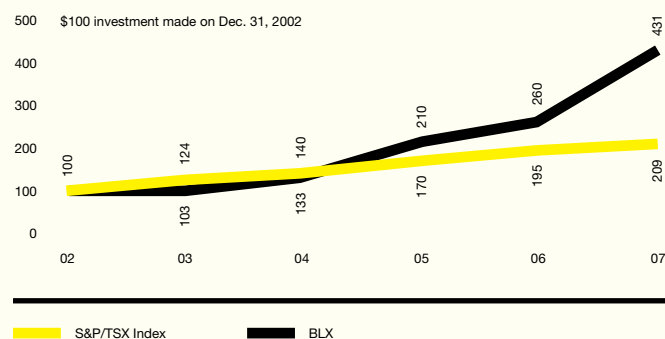
STOCK DATA

SECURITIES	Class A Shares
SYMBOL	BLX
EXCHANGE	Toronto
PRINCIPAL SHAREHOLDER (AS AT DECEMBER 31, 2007)	Cascades Inc. 34%

TRADING ON CLASS A SHARES

Fiscal year ended	Shares issued and outstanding	High	Low	Closing price
December 31, 2007	37,454,625	\$ 19.00	\$ 10.50	\$ 17.25
December 31, 2006	30,049,586	\$ 11.25	\$ 7.99	\$ 10.40

GROWTH IN BLX STOCK PRICE (TSX)



Overview of Fiscal 2007

Boralex: Positioned for a new growth phase

Solid financial performance

- 12% increase in production:
1,544,158 MWh
- 36% growth in revenue from
energy sales: \$162.8 million
- EBITDA up 42%: \$60.8 million
- 46% growth in net earnings:
\$21.5 million, or \$0.63 per share

Stronger balance sheet

- 7.3 million share issue:
net proceeds of \$105.3 million
- \$51.5 million in cash flow
from operations
- Total net debt to invested
capital ratio of 25% as at
December 31, 2007

**Boralex has the human skills,
financial health and market
leadership to successfully
embark upon a new phase
of growth aimed at increasing
its contracted renewable
energy capacity to:**

**1,000
megawatts
by 2012.**

Wind power

Primary spearhead of future expansion

- 17% growth in revenue and 15% in EBITDA in 2007
- Start-up in July 2007 of Boralex's 7th wind farm in France, La Citadelle (13.8 MW), and better availability rate for all wind power facilities
- Expansion of Avignonet-Lauragais site by adding 4.6 MW of capacity
- Patent for Boralex's method of preventing icing on blades, and introduction of other innovative tools for remote monitoring and proactive turbine management notably the system to measure and analyze vibrations in real time and the automated system for stopping machines
- Refinancing of €265 million to support development of Boralex's wind power projects in France to the year 2010
- In Canada, acquisition of rights to develop and operate nine wind farms with a total installed capacity of 90 MW in southern Ontario; the first three sites, totalling 30 MW, will start up in 2008
- Joint submission with Gaz Métro of three projects totalling 375 MW on the highly promising site at Seigneurie de Beaupré, Québec, in response to Hydro-Québec's call for proposals for 2,000 MW of wind power

Boralex plans to almost quintuple its total wind power capacity within the next few years

Thermal power

Main driver of financial performance in 2007

- 47% increase in combined revenue from the wood-residue segment (northeastern United States) and natural gas cogeneration segment (France) in 2007
- 221% increase in this segment's EBITDA, despite higher fuel costs
- 18% increase in production by the wood-residue segment and 15% increase in average electricity selling price
- \$24.8 million in RECs sold (versus \$5.6 million in 2006): REC market in Connecticut strengthens and the Livermore Falls wood-residue thermal power station qualifies for REC program

- Connecticut extends REC program to 2020 and ups the green energy percentage that distributors will have to supply (from 2% in 2005 to 20% in 2020)
- Firm forward sales contracts for US\$52.0 million in RECs for part of the scheduled production of the Stratton and Livermore Falls power stations to the year 2012
- Royalties from the Forward Capacity Market add \$3.2 million to revenue and EBITDA in the wood-residue segment
- Continuation of program to optimize wood-residue supply and power station performance: development of partnerships in wood-residue harvesting, increased fuel storage capacity and proactive investments in production equipment
- For the third year in a row, shutdown of natural gas cogeneration power station operations from April 1 to October 31 due to the high cost of natural gas
- Forward sale of part of the excess CO₂ quota from the natural gas facility for years 2008 and 2009

Boralex will continue to maximize its recurrent sources of revenue and profits in markets that value green power generation

Hydroelectric power

New growth opportunities in Canada

- Lower results in 2007 stem from less favourable hydrology and currency fluctuations
- Introduction of new tools to improve operational and environmental performance of power stations

Boralex aims to quadruple its hydroelectric capacity in the medium term by exploiting this segment's development potential in British Columbia

Message to Shareholders

In 2007, Boralex started a new phase of development to raise its contracted capacity to 1,000 MW by 2012. The sustained expansion of our wind power segment in France and the initiation of such projects in Canada, the \$110 million raised by the share issue in June 2007, and the setting-up of a team dedicated to the investigation and development of alternative ways to generate green energy, are all initiatives implemented by Boralex in 2007 to pave the way for future growth in the rapidly expanding renewable energy industry.

Boralex also posted a solid financial performance for the fiscal year ended December 31, 2007, with revenue from energy sales amounting to \$162.8 million, up 36% year over year. Net earnings increased 46% to \$21.5 million, or \$0.63 per share.

OPTIMIZATION

The increase in Boralex's 2007 results derives mainly from the U.S. wood-residue segment. This segment has started to reap the benefits of the strategy implemented since 2004 to optimize performance, reduce vulnerability to market fluctuations and establish recurrent sources of revenue and profits. As anticipated, in recent quarters demand and prices have risen in the Connecticut Renewable Energy Certificates ("RECs") market—for which a second Boralex power station qualified in 2007—generating additional revenue of more than \$19 million. This revenue source is all the more important in that, like the capacity premiums from the Forward Capacity Market in 2007, it is directly reflected in operating income. The wood-residue segment also significantly increased its electricity sales, achieving a higher average selling price and better power station availability. In the past few years, the initiatives to better secure its wood-residue supply and improve fuel quality, along with the global equipment performance optimization program, have improved the burn rate and overall efficiency of power stations, mitigating the impact higher fuel costs have had on profitability.

The outlook for Boralex's wood-residue segment is generally positive, mainly because Connecticut recently extended its REC program by 10 years to 2020; by then, electricity distributors will have to supply 20% green energy. As at December 31, 2007, our Stratton and Livermore Falls power stations already had forward sales contracts of more than \$50 million for part of their anticipated REC production for the years 2008 to 2012.

We expect to be able to eventually qualify other power stations under the REC program.

DEVELOPMENT

In addition to a good financial performance, 2007 was a year of important developments in our wind power segment, the spearhead of Boralex's expansion for the next three to five years. We started up our seventh wind farm in France, with an installed capacity of 13.8 MW, and began to add 4.6 MW of capacity at an existing site. By late March 2008, Boralex will be operating 68 wind turbines in France with a total installed capacity of 108 MW, close to quintuple the number in 2004. In addition, every year we are strengthening our expertise in the remote management and maintenance of equipment, developing new tools such as our method of preventing icing on blades, our system for analyzing vibrations in real time and a system for stopping machines remotely presently in the process of being patented. The innovative abilities of our team and our experience in operating wind turbines under a range of climatic conditions have made Boralex one of the most experienced wind power producers in France and one of the most advanced in the world. We are committed to capitalizing on these assets to continue our growth in France and establish ourselves in other European countries that have legislation that promotes the development of wind power.

The medium and long-term potential of the wind power market in France is excellent, given that the French government is encouraging the deployment of 5,000 to 6,000 wind turbines in the country over the next 10 years. In 2007, a refinancing of €265 million was put into place to support our development projects in France through to 2010. We also strengthened our development team so that we can play an active role in the future expansion and consolidation of the wind power market in France, and explore other potential markets in Europe. In addition to wind power, we are closely following the rise of other modes of non-fuel derived electricity generation. Boralex is currently, for example, becoming more familiar with solar power in Spain.

Furthermore, we have begun to leverage our unique expertise acquired in France to move strongly into the wind power market in Canada. Boralex is currently working on major projects in Ontario and Québec that could raise its total wind power capacity

to more than 500 MW within a few years. In July 2007, we acquired the rights to a group of sites in southern Ontario with a total capacity of 90 MW, to enable us to start and operate nine wind farms of 10 MW each. The electricity produced will be sold under a 20-year contract to Ontario Power Authority at a rate of \$110/MWh. Modern wind turbines have been ordered so that the first three farms, with a total capacity of 30 MW, can start operating by the end of 2008. We are planning to start the other six in 2009 and 2010. In Québec, in September 2007, Boralex and its partner Gaz Métro submitted three wind power projects with a total installed capacity of 375 MW to Hydro-Québec in response to its call for proposals. Results will be announced in the near future. These projects will require 180 wind turbines and will be located on the Seigneurie de Beaupré, private land that belongs to the Seminary of Québec. The site has excellent characteristics: wind power potential confirmed by more than 20 months of wind studies, proximity to Hydro-Québec TransÉnergie transmission lines, and distance from populated areas.

The Canadian market, and more specifically the British Columbia market, also offers good growth potential for our hydroelectric segment. Given the opportunities in this market and Boralex's special expertise acquired through more than 15 years in the management of hydroelectric power stations, we expect to be able to increase the installed capacity of our hydroelectric segment by more than 100 MW by 2012.

GROWTH

Everything is set for Boralex to start a new phase of accelerated growth. As a renewable energy producer, we are proactively positioned in a fast-growing industry with trends generally working in our favour. We have diverse and efficient facilities, excellent credibility on both sides of the Atlantic that is based on our experience and innovations, a healthier financial situation than ever and, above all, an excellent team with solid back up. In addition, our current projects and expansion strategies will significantly increase the percentage of our revenues derived from long-term contracts, which will promote greater financial stability for the Corporation.

Moreover, Boralex monitors the development of the strategic review undertaken by Boralex Power Income Fund when it ceased its sales process in September 2007. Boralex is committed to

providing optimal management of the Fund's assets until the situation changes.

To conclude, we wish to thank all our employees, the driving force of Boralex, for their exceptional performance in 2007 and their talent and unflagging commitment to the Corporation's success. We wish to also express our gratitude to the members of the Boralex Board of Directors, and to the company's shareholders and business partners.



Patrick Lemaire
President and
Chief Executive Officer



Bernard Lemaire
Executive Chairman
of the Board
March 2008

Management's Discussion and Analysis

for the year ended December 31, 2007

DESCRIPTION OF ACTIVITIES

Boralex Inc. ("Boralex" or the "Corporation") is a private electricity producer whose core business is the development and operation of power stations that run on renewable energy. Employing close to 300 people in Québec, the Northeastern United States and France, the Corporation owns and operates 21 generations sites with a combined total installed capacity of 351 megawatts ("MW").

Boralex is distinguished by its diversified expertise and long experience in three types of energy production:

- In recent years, Boralex has become one of the biggest and most experienced **wind power** producers in France, where it currently operates seven wind farms, including 68 wind generators, with a total installed capacity of 108 MW. In addition, it is currently developing major wind power projects in Canada, including one in Ontario with a potential capacity of 90 MW, and three in Québec with a total potential capacity of 375 MW.
- Boralex has more than 15 years' experience in producing **hydroelectric power** and owns seven hydroelectric power stations, of which five are in the United States and two in Québec, with a total installed capacity of 25 MW.
- Boralex operates seven **thermal power** stations, with a total installed capacity of 218 MW. It is the largest producer in North America of green wood-residue energy, with six thermal power stations located in the U.S. with a combined installed capacity of 204 MW. Boralex also operates a 14 MW natural gas cogeneration power station in France.

Boralex's stock, in which Cascades Inc. holds a 34% interest, trades on the Toronto Stock Exchange under the ticket symbol BLX.

In addition, to its own power stations, Boralex manages 10 power stations in Québec and the Northeastern United States with a total installed capacity of 190 MW for the Boralex Power Income Fund (the "Fund"), in which it holds a 23% interest.

INTRODUCTORY COMMENTS

GENERAL

This management's discussion and analysis ("MD&A") reviews the operating results and cash flows for the fiscal year ended

December 31, 2007, compared to the fiscal year ended December 31, 2006, as well as the Corporation's financial position at such dates. It should be read in conjunction with the audited consolidated financial statements and related notes found in the Corporation's Annual Report for the fiscal year ended December 31, 2007. Additional information about the Corporation, including the annual information form, previous annual reports, management reports and quarterly financial statements, as well as press releases, are published separately and are available on the SEDAR website (www.sedar.com).

In this report, "Boralex" or the "Corporation" mean, as applicable, either Boralex Inc. and its subsidiaries and divisions or Boralex Inc. or one of its subsidiaries or divisions.

The information contained in this MD&A reflects all material events up to February 28, 2008, the date on which the Board of Directors approved the annual financial statements and Management's Discussion and Analysis.

Unless otherwise indicated, all financial information, as well as tabular information, is in Canadian dollars.

NOTICE CONCERNING FORWARD-LOOKING STATEMENTS

The purpose of this MD&A is to help the reader understand the nature and importance of changes and trends, as well as the risks and uncertainties that may affect Boralex's operating results and financial position. Therefore, some statements, including those regarding future results and performance, may constitute forward-looking statements within the meaning of securities legislation; they are based on current expectations. These statements are characterized by the use of positive or negative verbs, such as "plan", "anticipate", "evaluate", "estimate", "believe" and other related expressions. They are based on Boralex Management's expectations, estimates and assumptions as at February 28, 2008.

Boralex would like to point out that, by their very nature, forward-looking statements involve risks and uncertainties; its results or the measures it adopts could therefore differ materially from those indicated by or underlying such statements or could have an impact on the degree of realization of a particular projection.

The main factors that could lead to a material difference between the Corporation's actual results and the projections or expectations set forth in the forward-looking statements include, but are not

limited to, the general impact of economic conditions, increases in the costs of raw materials, currency fluctuations, volatility in the selling price of electricity, the Corporation's financing capacity, negative changes in general market and industry conditions, as well as other factors described in *Risk Factors and Uncertainties* in this MD&A for the year ended December 31, 2007. Unless otherwise specified by the Corporation, the forward-looking statements do not take into account the possible impact on its activities of transactions, non-recurring items or exceptional items announced or occurring after the statements were issued.

No assurance may be given regarding actual results, returns or realizations that are presented or implied in forward-looking statements; the reader is therefore requested not to place undue confidence in these forward-looking statements. Unless required to do so under applicable securities legislation, Boralex Management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes.

COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Unless otherwise specified, the financial information presented in this MD&A, including tabular information, is prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A also contains measurements that are not standardized measurements according to GAAP. For example, Boralex uses earnings before interest, taxes, depreciation and amortization ("EBITDA"), because this method allows Management to assess the operating and financial performance of the Corporation's various segments. Please see *Additional Information about non-GAAP Performance Measurements* in this MD&A for a comparison between EBITDA figures and certain items in Boralex's consolidated results.

Moreover, in the analysis of its financial position, the Corporation uses cash flows from operations, corresponding to cash flow from operating activities before changes in non-cash working capital balances in the consolidated statement of cash flows. Both Management and investors use this indicator to measure the Corporation's ability to finance its expansion projects from its operating activities.

EFFECTIVENESS OF CONTROLS AND PROCEDURES FOR FINANCIAL REPORTING AND INTERNAL CONTROLS ON FINANCIAL INFORMATION

In compliance with Instrument 52-109 of the Canadian Securities Administrators, the Corporation files certificates signed by the Chief Executive Officer and the Chief Financial Officer who, among other things, reviewed the effectiveness of the Corporation's controls and procedures for the disclosure of financial information, as well as their conclusions concerning the effectiveness of internal control of financial information.

Management has established and maintains controls and procedures for the disclosure of financial information, such that Management has the reasonable assurance that all material information relating to the Corporation is reported promptly. Management, including the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Corporation's controls and procedures for financial reporting as at the date of the 2007 Annual Report and is of the view that they are effective.

Management is also responsible for the design of internal controls within the Corporation so that it can provide reasonable assurance that financial information is reliable and that financial statements for public disclosure have been prepared in accordance with Canadian GAAP. Management, including the Chief Executive Officer and the Chief Financial Officer, reviewed the design of the Corporation's internal controls and procedures related to financial information as at the fiscal year end and is of the opinion that they are sufficient to provide this level of reasonable assurance. As at the date of this report, Management has no knowledge of any to change to the Corporation's internal controls that has, or could reasonably be assumed to have, a material impact on the Corporation's internal controls on financial information.

SEASONALITY

(in thousands of dollars, except amounts per share and number of shares)

	2007			
QUARTERS ENDED	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
REVENUE FROM ENERGY SALES				
Wind power sites	8,268	4,934	5,974	8,034
Hydroelectric power stations	3,079	2,857	681	2,520
Wood-residue thermal power stations	33,360	22,839	25,688	29,973
Natural gas thermal power station	6,095	1,724	1,933	4,857
	50,802	32,354	34,276	45,384
EBITDA				
Wind power sites	7,070	3,867	4,876	7,020
Hydroelectric power stations	2,066	2,203	(485)	1,640
Wood-residue thermal power stations	12,166	2,709	7,469	10,673
Natural gas thermal power station	2,105	(329)	(219)	714
Corporate and eliminations	2,390	(1,764)	(1,997)	(1,421)
	25,797	6,686	9,644	18,626
NET EARNINGS				
	9,777	4,838	1,017	5,913
per share (basic)	\$ 0.33	\$ 0.15	\$ 0.03	\$ 0.16
per share (diluted)	\$ 0.32	\$ 0.15	\$ 0.03	\$ 0.15
Weighted average number of common shares outstanding (basic)	30,061,484	32,526,623	37,454,625	37,454,625

(in thousands of dollars, except amounts per share and number of shares)

	2006 (RESTATED) ⁽¹⁾			
QUARTERS ENDED	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
REVENUE FROM ENERGY SALES				
Wind power sites	5,574	5,191	4,652	7,757
Hydroelectric power stations	3,594	2,693	1,785	2,867
Wood-residue thermal power stations	22,248	11,001	17,986	19,891
Natural gas thermal power station	5,685	1,904	2,220	4,954
	37,101	20,789	26,643	35,469
EBITDA				
Wind power sites	4,511	4,457	4,016	6,782
Hydroelectric power stations	2,563	2,129	815	1,974
Wood-residue thermal power stations	4,247	(2,767)	2,939	1,167
Natural gas thermal power station	3,503	344	236	1,322
Corporate and eliminations	2,757	746	366	715
	17,581	4,909	8,372	11,960
NET EARNINGS				
	7,534	1,411	1,140	4,636
per share (basic)	\$ 0.25	\$ 0.05	\$ 0.04	\$ 0.15
per share (diluted)	\$ 0.25	\$ 0.05	\$ 0.04	\$ 0.15
Weighted average number of common shares outstanding (basic)	29,997,561	30,038,064	30,049,586	30,049,586

(1) In 2007, the Corporation changed its method of amortizing its natural gas thermal power station and two of its wind power sites. Net earnings for fiscal 2006 has been restated to reflect this change.

Operations and results for some of the Corporation's power stations are subject to seasonal cycles that vary by segment. Moreover, the impact of seasonal variations differs, depending on whether the power stations have power sale agreements or not.

For the 12 Boralex power stations that have long-term fixed-price power sale agreements, seasonal cycles mainly affect the volume of power generated. The eight power stations that do not have long-term contracts and that sell their power on the open market in the Northeastern United States are more

vulnerable to seasonal fluctuations which, in addition to influencing production volume, also have an impact on prices obtained in the electricity market. Generally, electricity consumption increases in the winter and summer, which corresponds to Boralex's first and third quarters. This means that, for those two periods, power stations that do not have long-term contracts can obtain higher average electricity prices. Because the wood-residue power stations can control their level of production, they generate more power during

such periods. Given this, their regular maintenance is performed in the spring or fall, which impacts their operating results for those periods.

Hydroelectric generation depends on water flows, which in Québec and the Northeastern United-States U.S. tend to be at their maximum in spring and generally good in the fall, corresponding to Boralex's second and fourth quarters. Historically, flows tend to decrease in winter and summer. Note that Boralex's hydroelectric facilities do not have reservoirs that would permit the regulation of water flows.

In the wind power segment, where Boralex's activities are currently focused in France, wind conditions are usually more favourable in the winter, corresponding to Boralex's first and fourth quarters. However, in winter there is a higher risk of downtime caused by weather conditions, such as icing on high-altitude sites.

The natural gas cogeneration plant's long-term contract with *Électricité de France* ("EDF") contains a clause that limits electricity prices from April to October. When natural gas prices are high, the revenue margin for this period is not sufficient to offset the ceiling on electricity prices. The cogeneration equipment

may therefore be shut down, in which case the Corporation supplies its steam customer from an auxiliary boiler. Accordingly, in the last three fiscal years, the Corporation operated its cogeneration equipment only during the five winter months.

Furthermore, Boralex's investment in the Fund is also seasonal. Around 50% of the Fund's earnings come from the hydroelectric segment and are thus subject to the same throughout fluctuations as Boralex's hydroelectric power stations. However, as all of the Fund's power stations have long-term contracts they are not subject to a seasonal price cycle. Nevertheless, some power stations receive a bonus for power generated from December to March, which typically results in the Fund's increased profitability in the first and fourth quarters.

To summarize, although Boralex's performance is affected by seasonal cycles, its diversified production sources reduce seasonal variations in its results. The Corporation is also developing complementary revenue streams in order to increase and secure sales. It participates, for example, in the Renewable Energy Certificate ("REC") market and the Forward Capacity Market in the Northeastern United States, as well as in the carbon dioxide ("CO₂") quota market in France.

SUMMARY OF CONSOLIDATED INFORMATION FOR THE PAST THREE FISCAL YEARS

(in thousands of dollars, except amounts per share and number of shares outstanding)

OPERATING RESULTS

	FISCAL YEARS ENDED		
	DECEMBER 31	DECEMBER 31	DECEMBER 31
	2007	2006	2005
		(RESTATED) ⁽¹⁾	(RESTATED) ⁽¹⁾
Revenue from energy sales	162,816	120,002	108,696
EBITDA	60,753	42,822	34,084
Net earnings	21,545	14,721	20,771
per share (basic)	\$ 0.63	\$ 0.49	\$ 0.69
per share (diluted)	\$ 0.62	\$ 0.48	\$ 0.69
Weighted average number of common shares outstanding (basic)	34,403,033	30,033,885	29,986,994

BALANCE SHEET DATA

As at December, 31			
	2007	2006	2005
		(RESTATED) ⁽¹⁾	(RESTATED) ⁽¹⁾
Total assets	514,731	476,030	427,838
Total debt ⁽²⁾	175,533	234,328	203,849
Shareholders' equity	284,769	182,033	164,093

(1) In 2007, the Corporation changed the amortization method for its natural gas plant and two of its wind power sites. Certain data for fiscal 2006 and 2005 have been restated to reflect this change.

(2) Including long-term debt and current maturities, as well as bank loans and advances, where applicable.

HIGHLIGHTS OF THE LAST THREE FISCAL YEARS

BORALEX'S WOOD-RESIDUE SEGMENT PARTICIPATES IN THE CONNECTICUT AND NEW YORK STATE REC MARKETS

In the last years, Boralex has sought to position some of its wood-residue power stations so that they can trade in the REC market in the State of Connecticut. This market emerged in 2005 when the State of Connecticut implemented a program with an initial duration of five years until 2010. In the course of 2007, the State of Connecticut announced its decision to extend the REC program for another 10 years until 2020. Under this program, the State requires electricity distributors to provide a minimum quantity of green energy, based on a scale that will rise annually from 1.5% at the start of the program in 2005 to 20% in 2020. Distributors must obtain this energy from qualified producers of renewable energy, who will receive for each megawatt-hour ("MWh") produced a premium over and above the base electricity price. RECs are officially awarded to qualified producers each quarter, at a rate of one certificate for each MWh produced, on condition that the average level of atmospheric emissions is maintained below the quarterly regulatory limit.

As Boralex Management anticipated, in 2006 the emerging RECs market in the State of Connecticut experienced a transition period in which supply exceeded demand, leading to a temporary drop in prices. However, demand and prices rose starting in the fourth quarter of fiscal 2006, a positive trend that continued in 2007.

Boralex first took advantage of this expanding market by qualifying its power station in Stratton (Maine) in Connecticut's REC program. Stratton started trading in RECs on January 1, 2005. In the fourth quarter of 2007, Livermore Falls (Maine) power station also qualified in Connecticut's REC program, retroactive to April 1, 2007. Consequently, Boralex's revenues from Connecticut's REC market were \$8.1 million in 2005, \$3.9 million in 2006 because of a temporary market slowdown and \$22.7 million in 2007. In addition to selling almost all of their REC production for 2007, the Stratton and Livermore Falls power stations signed forward-sale agreements for part of their projected production from 2008 to 2012. As at December 31, 2007, these agreements represent future revenue of US\$52 million.

In addition, in February 2006, the Chateaugay power station (New York) qualified for the REC program in New York State, which operates differently from the market in Connecticut. Chateaugay negotiated and signed a ten-year agreement with an agency in New York State that gives the facility more security with respect to the price at which it sells its electricity, effective April 1, 2006. Chateaugay thus reported \$1.7 million in REC sales during fiscal 2006 and \$2.1 million in 2007.

Boralex's three wood-residue power stations currently participating in REC sales have a combined installed capacity of 110 MW or 53.9% of the total power of the wood-residue segment. During 2007, these three stations generated total revenues of \$24.8 million from REC sales, which have the added advantage of being reflected in operating expenses. The same applies to recurring payments by the new Forward Capacity Market, put

in place by ISO New England for the benefit of energy producers, particularly wood-residue power stations, who undertake to maintain a steady capacity. In 2007, this new vehicle boosted the revenues and EBITDA of Boralex's wood-residue segment by an additional \$3.7 million. Together with an increase in electricity sales prices in the last two years, the award of U.S. tax credits for the production of wood-residue renewable energy, as well as the strategies utilized by the wood-residue sector to optimize its supply of raw materials, electricity sales and power station operations, access to revenue sources and recurring earnings, in particular in the Connecticut REC market, led to a major improvement in the financial performance of this segment since 2004, thus significantly enhancing the Corporation's consolidated results.

Boralex Management is of the opinion that, in the medium term, the REC market is a potentially interesting source of revenue and recurring earnings for its wood-residue segment. The Corporation is currently weighing up the possibility of qualifying its other power stations.

It should also be noted that in Europe there is a green credit trading system, in which certain Boralex wind power sites in France participate. However, as the system operates on a voluntary basis, it does not yet generate significant revenue for the Corporation (\$0.7 million in 2007).

TAX CREDITS FOR WOOD-RESIDUE THERMAL POWER STATIONS AND MONETIZATION

Following the *American Jobs Creation Act* passed by Congress and starting in 2005, Boralex's wood-residue thermal power stations can benefit, based on their generation of electricity, from tax credits that, although non-refundable, can be carried forward. This tax credit is awarded to producers of renewable energy if their type of production meets the qualifying criteria. This program, which started on January 1, 2005, is scheduled to run for five years (to the end of 2009) for wood-residue thermal power stations. The credit is calculated by multiplying production by a unitary factor that may change from year to year. The factor was set at US\$9.00 per MWh for 2005, and at US\$10.00 per MWh for 2006 and 2007. As recommended in Section 3805 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, Boralex recognized \$11.0 million of these tax credits in 2005, \$10.6 million in 2006 and \$12.0 million in 2007 as an offset to operating expenses of the wood-residue thermal power stations.

On December 1, 2006, Boralex closed a transaction with financial investors for the monetization of U.S. renewable energy tax credits (described in the preceding paragraph) to which its wood-residue thermal power stations will be entitled until 2009. Boralex transferred the tax credit to those investors by means of a temporary transfer of indirect equity interests in some of the U.S. wood-residue thermal power stations. In return, Boralex received US\$14.5 million (\$16.7 million) at closing, along with a US\$12.8 million contingent payment note. These amounts represent the discounted value of the tax credits that will be generated between the transaction date and December 31, 2009, the date when the federal tax credit

program ends. The contingent note will be repaid in quarterly instalments based on the actual amount of the tax credits earned by the power stations under the monetization program. Furthermore, Boralex received a note for \$68.0 million that will be repaid from the cash flows generated by the power stations, enabling Boralex to retain its rights to 100% of the earnings and liquid assets of the power stations in question (with the exception of the tax credit). In the Corporation's consolidated balance sheet, the cash consideration received in December 2006 appears as a liability under *Other liabilities* which will be incrementally recognized as revenue in the consolidated financial statement as the tax credits are earned. Amounts attributable to the discount granted and the estimated value of the interest call rights are posted to *Other liabilities* on the balance sheet and as *Financing costs* on the Corporation's statements of earnings.

Under this transaction, the Corporation has retained its full authority over the management of power stations pursuant to an operation and maintenance agreement; it also has call rights to buy back the wood-residue assets at certain times and for certain amounts. Boralex also retains the entire working capital cash flow of these power stations. Call rights are exercisable following final repayment of the contingent note.

RECLASSIFICATION OF MONETIZATION PROGRAM ITEMS

The main objective of the monetization transaction was to strengthen the working capital of Boralex U.S. subsidiary to give it greater financial flexibility to pursue its current operations and investment projects. The transaction also enabled the subsidiary to benefit from the time value of money, and maximize the realizable value of tax credits.

Since this is actually a financing transaction, management elected to modify the presentation of the transaction in the fourth quarter of 2007. Amounts previously presented under *Deferred revenue* were included in *Other liabilities*. In the statement of earnings, renewable energy tax credits were presented net of the discount and financing costs, but it was deemed more appropriate to present the gross amount of renewable energy tax credits and include the discount and financing costs in *Financing costs*. Also, the amortization of monetization program expenses has been reclassified to the *Financing costs*. These reclassifications had no impact on the Corporation's cash flows.

For 2006, the impact on earnings was negligible, since the transaction took place on December 1, 2006. As a result, the statement of earnings was not modified. The restated amounts for 2007 are as follows:

	THREE-MONTH PERIOD ENDED				FISCAL YEAR ENDED
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	DECEMBER 31
(in thousands of dollars)	2007	2007	2007	2007	2007
RENEWABLE ENERGY TAX CREDITS					
Balance before change	3,116	2,174	2,551	2,049	9,890
Reclassified to financing costs	639	470	583	451	2,143
Restated balance	3,755	2,644	3,134	2,500	12,033
FINANCING COSTS					
Balance before change	3,406	2,920	2,394	2,259	10,979
Reclassification of amortization of monetization program expenses	503	513	475	456	1,947
Reclassification of financing costs related to monetization program	639	470	583	451	2,143
Restated balance	4,548	3,903	3,452	3,166	15,069

EXPANSION OF THE WIND POWER SEGMENT

In December 2005, Boralex, through its subsidiary in France, commissioned three new wind power sites in France, with 42 wind turbines and a total installed capacity of 65 MW. All of the power generated by these sites is sold to EDF under 15-year fixed-price agreements. The first two sites are in the Massif Central region. One of them, located on the Plateau d'Ally in the Haute-Loire, has 26 wind turbines, each with a capacity of 1.5 MW. The other, located on the Plateau de Cham de Cham

Longe, in Ardèche, has 12 wind turbines, with the same capacity. The third site has an installed capacity of 8 MW and is located in Plouguin, in Brittany. To develop these three sites required an investment of around \$131 million (€89 million) financed in large part by a major French bank. With these three sites, Boralex raised its total installed capacity in wind power in France from 24 MW as at December 31, 2004, to 89 MW as at December 31, 2005. The new wind farms began satisfactory operation during fiscal 2006 and 2007.

On July 22, 2005, to support its growth in France, the Corporation arranged €190 million master agreement with a French bank. This financing was intended to provide Boralex with the cash required to finance new projects as opportunities arise in France. On June 25, 2007, Boralex concluded refinancing certain French credit agreements through a new €265 million (around \$380 million) master agreement, for the purpose of developing its wind power projects in France until 2010. Like the previous one, the new master agreement, with a larger amount and a longer term, is provided through BNP Paribas S.A. in its capacity as arranger, principal bank and agent. This master agreement allows Boralex increased flexibility and funds availability in France, combined with improved financial conditions that take into account Boralex's wind farms experience. (For further details, see *Analysis of major cash flows for the quarter and year ended December 31, 2007*, in this MD&A.)

On July 18, 2007, Boralex started up a seventh wind farm (13.8 MW) in France, La Citadelle, located in the communes of Saint-Agrève and Desaignes in Ardèche. It has six wind turbines, each with a capacity of 2.3 MW, and sells its entire production to EDF under 15-year fixed-price agreements. The financing for this project is assured by the master agreement. In March 2008, after fiscal year-end, the Corporation will have increased the installed capacity of its wind power site in Avignonet-Lauragais (France) 4.6 MW to 12.6 MW. Consequently, to date, Boralex's wind power segment includes 68 wind turbines, all located in France, whose total installed capacity is now 108 MW, or 4.5 times greater than it was at the end of fiscal 2004.

Boralex recently began importing into Canada its leading-edge expertise acquired in the wind power segment in France. On July 9, 2007, the Corporation announced that it had signed a memorandum of understanding with a private renewable energy development company based in Ontario (Canada), to acquire the rights to nine wind farms with a capacity of 90 MW located in the south of Ontario. Each site has a 20-year contract with the Ontario Power Authority under the Renewable Energy Standard Offer Program ("RESOP"). Boralex aims to operate the first three farms, with a total capacity of 30 MW, towards the end of fiscal 2008.

In addition, on September 19, 2007, the Corporation and its partner, Gaz Métro, submitted three wind power projects totalling 375.2 MW in response to Hydro-Québec's call for tenders for 2,000 MW in wind power. The projected installed capacity of the three sites, all located on the Seigneurie de Beaupré lands, owned by the Séminaire de Québec, is 103.3 MW, 132.6 MW and 139.3 MW respectively. Boralex's wind power projects, an integral part of its strategy of segment and geographic diversification, are described in greater detail under *Outlook* in this MD&A.

CO₂ QUOTAS IN FRANCE

Following the adoption of the Kyoto Protocol in Europe, the European Union set up a mechanism in 2005 whereby companies that use fossil fuels are assigned a CO₂ emission quota. According to this user-pay mechanism, on the reporting date the company must show that its quota is sufficient to justify its atmospheric emissions during the previous year. To comply with regulations, companies that exceed their quota must buy additional quota from others who are in a surplus position because they have reduced their level of atmospheric emissions.

Because Boralex's natural gas-fired power station in Blendecques (France) interrupted its cogeneration activities for seven months in 2005, 2006 and 2007, due to the high cost of natural gas, the facility had excess CO₂ quota. Part of that quota was sold in fiscal 2005, generating revenue of about \$1 million. In 2006, in addition to selling its excess CO₂ quota for the year, the plant proceeded with the forward sale of its anticipated excess quota for fiscal 2007, generating revenue of \$3.4 million for 2007. Although its quota was reduced for the period 2008 to 2012, like the great majority of European businesses, the Corporation estimates that it will be in a surplus position. This is why, in the fourth quarter of 2007 nevertheless, the station concluded forward-sale agreements for part of its projected excess CO₂ quotas for 2008 and 2009.

CORPORATE FINANCING

On January 27, 2006, Boralex put in place long-term financing of \$85 million to replace the \$65 million corporate line of credit put in place in 2004. This financing consists of a revolving credit of three years, with two one-year renewal options. The renewal options were exercised in January 2007 and 2008. The revolving credit is secured by Boralex's investment in the Fund, with a limit based on the stock market value of Fund trust units. The purpose of this financing was to provide Boralex with greater financial flexibility in order to pursue its growth.

On June 7, 2007, the Corporation announced the closing of its public offering of 7,333,334 Class A shares for gross proceeds of \$110.0 million. The offering resulted in total net proceeds to Boralex of approximately \$105.3 million, which were used to temporarily reduce the amount borrowed on Boralex's revolving credit. The balance of the proceeds were temporarily invested in banker's acceptances. This equity contribution significantly strengthened Boralex's balance sheet, allowing it to plan for large-scale expansion projects. It should be noted that the Corporation was never exposed to asset-backed commercial paper.

(For further details, please see *Analysis of major cash flows for the quarter and year ended December 31, 2007* in this MD&A.)

**SELECTED CONSOLIDATED INFORMATION FOR QUARTERS
AND YEARS ENDED DECEMBER 31, 2007 AND 2006**

(in thousands of dollars, except amounts per share and number of shares)

	THREE MONTHS ENDED		FISCAL YEARS ENDED	
	DECEMBER 31	DECEMBER 31	DECEMBER 31	DECEMBER 31
	2007	2006 ⁽¹⁾	2007	2006 ⁽¹⁾
REVENUE FROM ENERGY SALES				
Wind power sites	8,034	7,757	27,210	23,174
Hydroelectric power stations	2,520	2,867	9,137	10,939
Wood-residue thermal power stations	29,973	19,891	111,860	71,126
Natural gas thermal power station	4,857	4,954	14,609	14,763
	45,384	35,469	162,816	120,002
EBITDA				
Wind power sites	7,020	6,782	22,833	19,766
Hydroelectric power stations	1,640	1,974	5,424	7,481
Wood-residue thermal power stations	10,673	1,167	33,017	5,586
Natural gas thermal power station	714	1,322	2,271	5,405
Corporate and eliminations	(1,421)	715	(2,792)	4,584
	18,626	11,960	60,753	42,822
NET EARNINGS	5,913	4,636	21,545	14,721
per share (basic)	\$ 0.16	\$ 0.15	\$ 0.63	\$ 0.49
per share (diluted)	\$ 0.15	\$ 0.15	\$ 0.62	\$ 0.48
Weighted average number of common shares outstanding (basic)	37,454,625	30,049,586	34,403,033	30,033,885

(1) Net earnings for 2006 were restated to reflect changes in amortization method implemented in 2007 for two wind power sites and the natural gas thermal power station.

**ADDITIONAL INFORMATION ABOUT NON-GAAP
PERFORMANCE MEASUREMENTS**

In order to assess the performance of its assets and reporting segments, Boralex uses EBITDA and cash flows from operating activities. Although not a performance measurement under Canadian GAAP, Management believes that EBITDA and cash flows from operating activities are widely accepted financial measurements used by investors to assess the performance of a company and its ability to generate cash through opera-

tions. Nevertheless, since EBITDA is not a GAAP performance measurement it may not be comparable to similarly named measures used by other companies.

Investors should not view EBITDA as an alternative measurement to, for example, net earnings, or as a measurement of operating results or cash flows, or as a parameter for measuring liquidity. In the Boralex consolidated statement of earnings, EBITDA corresponds to the item *Earnings before amortization*.

The following table reconciles EBITDA to the net earnings:

	THREE MONTHS ENDED		FISCAL YEARS ENDED	
	DECEMBER 31	DECEMBER 31	DECEMBER 31	DECEMBER 31
(in thousands of dollars)	2007	2006	2007	2006
		(RESTATED)		(RESTATED)
Net earnings	5,913	4,636	21,545	14,721
Non-controlling interest	34	42	(70)	168
Income tax expense (recovery)	3,661	(2,988)	8,457	(5,924)
Financing costs	3,166	3,878	15,069	12,681
Financial instruments	368	-	(5,875)	-
Amortization	5,484	6,392	21,627	21,176
EBITDA	18,626	11,960	60,753	42,822

Cash flows from operating activities correspond to cash flows related to operating activities before change in non-cash working capital balances. Management and investors use this measurement to assess cash flows generated by the Corporation's operations and its capacity to finance its expansion from those assets. In fact, change in non-cash working capital balances may vary considerably from one quarter to the next because of the seasonal nature of the Corporation's activities, combined with growth activities resulting in sharp changes in

accounts payable during the construction period, as well as an investment in working capital at project start-up. Debit accounts may also vary greatly when the Corporation qualifies on new renewable energy markets. However, investors should not consider cash flows from operating activities as an alternative measurement to cash flows related to operating activities, which is a GAAP measurement.

The following table reconciles the cash flows from operating activities to cash flows related to operating activities.

	THREE MONTHS ENDED		FISCAL YEARS ENDED	
	DECEMBER 31	DECEMBER 31	DECEMBER 31	DECEMBER 31
(in thousands of dollars)	2007	2006	2007	2006
Cash flow related to operating activities	6,021	5,583	35,057	13,805
Change in non-cash working capital balances	9,995	2,359	16,491	10,713
CASH FLOWS FROM OPERATING ACTIVITIES	16,016	7,942	51,548	24,518

ANALYSIS OF OPERATING RESULTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

The following table shows major changes explaining the change in net earnings for fiscal 2006 and 2007:

	NET EARNINGS (IN MILLIONS OF DOLLARS)	PER SHARE (IN DOLLARS)
FISCAL YEAR ENDED DECEMBER 31, 2006	14.7	0.49
EBITDA	18.0	0.52
Amortization	(0.4)	(0.01)
Financial instruments	5.9	0.17
Financing costs	(2.4)	(0.07)
Income tax expenses	(14.4)	(0.42)
Other	0.1	0.01
Effect of the June 2007 share issue	-	(0.06)
FISCAL YEAR ENDED DECEMBER 31, 2007	21.5	0.63

In fiscal 2007, Boralex generated net earnings of \$21.5 million or \$0.63 per share (\$0.62 diluted), compared to net earnings of \$14.7 million or \$0.49 per share (\$0.48 diluted) in 2006.

As shown in the above table and discussed in more detail below, the increase of \$6.8 million or \$0.14 per share in Boralex's net annual earnings is mainly attributable to the growth of its consolidated EBITDA. In addition, Boralex registered a net gain of \$5.9 million on financial instruments in the second quarter.

Increased financing costs stem mainly from the amortization of monetization program costs, the discount and financial costs related to the program, and the new debt issued to build the La Citadelle site, which could not be offset by savings on the financial costs realized following to the June 2007 share issue. Finally, income tax expense increased, since the monetized tax credit amounts have now become taxable, which was not the case for the greater part of 2006.

Analysis of major changes in revenue from energy sales and EBITDA

(in millions of dollars)	REVENUE FROM ENERGY SALES	EBITDA
FISCAL YEAR ENDED DECEMBER 31, 2006	120.0	42.8
Start-up	2.6	0.5
Volume	10.0	(0.1)
Pricing	9.7	9.7
RECs and green credits	20.0	20.0
Energy premiums	3.6	3.6
CO ₂ quotas	-	(3.2)
Renewable energy tax credits	-	2.0
Conversion of autonomous subsidiaries	(3.1)	(0.2)
Raw materials costs	-	(6.9)
Maintenance	-	1.8
Administration costs	-	(3.9)
Share of the Fund's results	-	(3.3)
Development expenses	-	(0.6)
Other	-	(1.4)
FISCAL YEAR ENDED DECEMBER 31, 2007	162.8	60.8

REVENUE FROM ENERGY SALES

In fiscal 2007, total revenue from energy sales stood at \$162.8 million, versus \$120.0 million in 2006. As explained in detail under *Analysis of the segmented results for the fiscal year ended December 31, 2007*, in this MD&A, the increase of \$42.8 million or 35.7% of the consolidated revenue from energy sales is largely attributable to the wood-residue segment. The growth of consolidated revenue from energy sales in fiscal 2007 stemmed mainly from the following factors:

- Boralex reported an increase of \$20.0 million in revenue from REC and green credits sales, up to \$25.6 million over \$5.6 million in 2006. The Stratton and Livermore Falls wood-residue power stations in the Connecticut market were responsible for almost 89% of the revenue from REC sales for 2007. In fact, Stratton practically quadrupled its REC sales, which reached \$15.4 million in 2007, because increased demand and prices in the Connecticut market. In the fourth quarter of 2007, the Livermore Falls power station qualified in the Connecticut REC market, retroactive to the start of its production in the second quarter, generating additional REC sales of \$7.3 million. The Chateaugay wood-residue power station chalked up REC earnings of about \$2.1 million in the New York State market. Lastly, some of Boralex's wind farms in France traded on the European green credit market, bringing in revenues of \$0.7 million;
- Boralex recorded a 12.1% increase in the volume of electricity production, totalling 1,544,158 MWh in 2007 compared to 1,377,053 MWh in 2006, which increased its revenues by \$12.6 million, of which an additional \$10.0 million was attri-

butable to an increase in production by existing power stations, particularly the wood-residue power stations. The balance of \$2.6 million represents the contribution of new production facilities added during the year, including La Citadelle wind farm started up in July 2007 and the Stacyville wood-residue power station, which was operational for only two months in the first quarter of 2007. Overall, the increase in the revenues from the wood-residue and wind power segments, combined with a slight increase in production by the natural gas cogeneration plant, largely offset the \$1.8 million drop in revenue from the hydroelectric segment;

- an increase of around 6% in the average MWh sale price of electricity sold by the Corporation's power stations combined generated additional revenues of \$9.7 million, largely attributable to the wood-residue segment. In addition to a 7% increase in the average US\$ sale price on the open market in the Northeastern United States, this segment benefited from the acquisition of the Ashland and Fort Fairfield power stations at the beginning of fiscal 2007, under renegotiated agreements that better reflected prevailing market conditions;
- the Corporation recorded additional revenues of \$3.6 million in the form of energy premiums, mostly thanks to the new Forward Capacity Market put in place in December 2006 in the Northeastern United States. It offers incentives to energy producers for constructing more plants. In 2007 Boralex started taking up this new source of recurring revenue that primarily benefits its wood-residue segment. Some of its hydroelectric power stations in the U.S. also benefit from a similar program in New York State.

It should, however, be noted that currency fluctuations, particularly between the loonie and the greenback, had an unfavourable impact of \$3.1 million on the consolidated revenue of 2007.

OTHER REVENUE

Boralex earned \$14.9 million in revenue from sources other than energy sales in the course of fiscal 2007, compared to \$20.3 million in 2006. This decrease of \$5.4 million or 27.0% is largely attributable to the following factors:

- Boralex's share in Fund income declined by \$3.3 million because of the Fund's disappointing performance in 2007 compared to 2006. This decline is due to historically low water flows, much lower than in 2006, the negative impact of the strengthening of the loonie against the greenback and various non-recurring expenses incurred by the Fund in 2007, most related to the strategic review process;
- Boralex recorded a revenue shortfall of \$3.2 million because, unlike in 2006, the natural gas cogeneration power station in Blendecques (France) did not record any sales of excess CO₂ quotas in 2007. In effect, this power station took advantage of attractive prices in 2006 to forward sell its anticipated 2007 excess CO₂ quotas;
- Boralex sold off a developing wind power site for \$1.1 million, because it had failed to meet all its objectives.

In the fourth quarter of fiscal 2007, the Fund wrote off the goodwill valuation of its natural gas cogeneration power facility in Kingsey Falls (Québec) for an amount of \$14.0 million. Since Boralex's share of this goodwill valuation had not been recorded on its books when the Fund was created in 2002, the write-off did not affect its results. In fact, since Boralex had retained part of its Fund share, accounting principles do not permit it to record its portion of the increased value of the assets transferred in exchange for Fund holdings.

EBITDA

Consolidated EBITDA for fiscal 2007 stood at \$60.8 million, up \$18.0 million or 42.1% over 2006. This solid gain was mainly attributable to the following factors:

- the increase in REC sales and green credits directly contributed \$20.0 million to consolidated EBITDA, stemming mainly from the wood-residue segment;
- the increase in average electricity prices contributed \$9.7 million to consolidated annual EBITDA;
- energy premiums awarded to some of the Corporation's power stations in the U.S. generated additional EBITDA of \$3.6 million;

- the increase in production by wood-residue power stations earned the Corporation an additional \$2.0 million in tax credits;
- lastly, as discussed under *Analysis of the segmented results for the fiscal year ended December 31, 2007*, the Corporation benefited from a \$1.8 decrease in maintenance and repair costs, attributable to the wood-residue segment.

The increase in the total volume of production by newly-commissioned power stations, as well as increased production by existing power stations, had a favourable net effect of \$0.4 million on EBITDA. The additional contribution of the La Citadelle wind power facility was partially offset by maintenance expenses when the Stacyville wood-residue power station was closed indefinitely. As far as existing power stations are concerned, the increase in volume from wood-residue power stations could not offset the production decline of the hydroelectric power stations. In fact, since hydroelectric power stations have a fairly stable cost structure, their EBITDA is directly affected by a decline in production, which is not the case for wood-residue power stations. On the other hand, major factors in particular had an adverse impact on consolidated EBITDA for fiscal 2007:

- the decrease in the Corporation's share of Fund results reduced EBITDA by \$3.3 million, because of a decline in the Fund's performance attributable to low water flows, the adverse impact of the strengthening of the Canadian dollar on the performance of the Fund's U.S. power stations and various non-recurring expenses;
- Boralex had to absorb an increase of \$6.9 million in the cost of supplying its power stations with wood-residue, stemming from the fact that demand for this resource outstripped supply and from higher transport costs, caused by the rise in the oil price and derivative products. Furthermore, under the Corporation's optimization strategy for power station production, this segment uses pricier top-quality forest residue. However, the use of a better-quality resource enabled it to hike by 5% the average burn rate of wood-residue power stations compared to 2006, which partly offset increased wood-residue costs. Management is of the opinion that these costs will remain under pressure in the short and medium term because of the rarity of this resource and high transport costs;
- Boralex recorded an increase of \$3.9 million in administration expenses. There are several explanations for this: as of last year, additions to the management team and the hiring of new employees, in order to implement the Corporation's various development projects; increased share based compensation expense because of Boralex's bullish share prices; an increase in capital tax and an increase in professional fees, mainly associated with the wood-residue segment;

- the \$3.2 million revenue shortfall, mentioned above, from the sale of excess CO₂ quotas by the natural gas cogeneration power station in France had a similar negative impact on EBITDA;
- the increase in the Corporation's development activities resulted in additional costs of \$0.6 million;
- lastly, EBITDA was affected by other factors, particularly the write-off of damaged equipment and the effect of the strengthening of the Canadian dollar against US dollar balances held in Canada.

(A more detailed analysis of the revenue and EBITDA of the various segments may be found under *Analysis of the segmented results for the fiscal year ended December 31, 2007.*)

AMORTIZATION, FINANCIAL INSTRUMENTS, FINANCING COSTS AND EARNINGS BEFORE INCOME TAXES

Amortization expenses totalled \$21.6 million in fiscal 2007, compared to \$21.2 million in 2006. The increase was mainly due to the start-up of the new La Citadelle wind farm and increased production by wood-residue power stations. The increases were partially offset by the strengthening of the Canadian dollar against the US dollar.

Financing costs reached \$15.1 million in 2007, compared to \$12.7 million in 2006. This 18.9% increase, or \$2.4 million, was largely determined by two factors. First, financing costs climbed by approximately \$4 million because of the amortization of the costs related to the monetization program, as well as associated interest charges and discount. Secondly, a debt of about \$17 million was issued towards the construction of La Citadelle wind farm. On the other hand, the share issue completed in 2007 meant a saving of interest charges on the line of credit, which was paid off and, as well interest income earned on the amounts invested.

Consequently, Boralex recorded earnings before income taxes of \$29.9 million in 2007, compared to \$9.0 million in 2006.

INCOME TAX EXPENSE (RECOVERY)

During fiscal 2007, Boralex's income tax expense stood at \$8.5 million, compared to an income tax recovery of \$5.9 million in 2006, a negative change of \$14.4 million. This change can largely be attributed to two factors:

- renewable energy tax credits were monetized as of December 1, 2006. This meant that this amount was not subject to tax during the previous eleven months, which explains a jump of about \$4 million in the income tax charge;
- Boralex's earnings before income taxes jumped by \$20.9 million in 2007, which also explains the increase in the income tax charge of around \$8.4 million, since enhanced profitability stemmed mainly from its U.S. operations.

The Corporation benefited from reduced tax rates in Canada of \$2.1 million in 2007 and \$2.3 million in 2006. Finally, in 2006, Boralex had reversed certain tax reserves regarding tax risks that did not materialize for approximately \$1.7 million, whereas it reversed approximately \$0.5 million in 2007.

Taking all jurisdictions into account, Boralex's combined statutory income tax rate is normally approximately 38%. However, the dividend portion of distributions from the Fund may vary, depending on the amounts of U.S. dollars that the Fund brings into Canada to pay its distributions. This factor could significantly reduce Boralex's consolidated tax rate.

NET EARNINGS

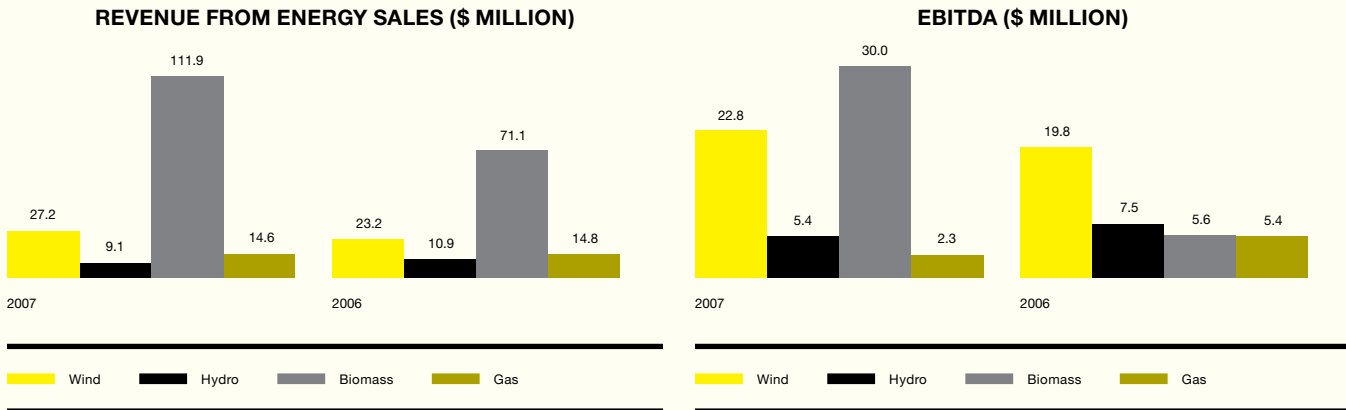
Boralex thus closed fiscal 2007 with net earnings of \$21.5 million or \$0.63 per share (\$0.62 diluted), compared to net earnings of \$14.7 million, or \$0.49 per share (\$0.48 diluted) in 2006, up 46.3%. The weighted average number of shares outstanding was 34.4 million in 2007, compared to 30 million in 2006, or an increase of 14.7% due to the issue of June 7, 2007.

In brief, Boralex posted a significant increase in revenue for 2007, including 35.7% growth in its energy products, 42.1% in its EBITDA, 232.2% in its earnings before income taxes and 46.3% in its net earnings. This solid performance was primarily due to the wood-residue and wind power segments, in particular:

- the strength of the REC market;
- the improved availability and productivity of wood-residue power stations and wind power sites;
- the start-up of a new wind power site;
- impact of the optimization program for wood-residue power stations launched in 2005;
- revamped sale agreements for certain power stations;
- higher selling prices;
- additional recurring revenue on the Forward Capacity Market.

ANALYSIS OF THE SEGMENTED RESULTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

SEGMENT BREAKDOWN



During fiscal 2007, increased REC sales, combined with enhanced production and electricity sales by wood-residue power stations, meant that this segment generated 68.7% of Boralex's consolidated revenue, compared to 59.3% in 2006. This reduced the contribution of the wind power segment from 19.3% in 2006, versus 16.7% in 2007.

Enhanced profitability in the wood-residue segment enabled it to raise its contribution to consolidated EBITDA (excluding the *Corporate and eliminations* segment), which rose from 14.6% in 2006 to 52.0% in 2007. Thus, despite an EBITDA dollar improvement, the percentage contribution in the wind power segment dropped from 51.7% in 2006 to 35.9% in 2007 on account of a robust performance from the wood-residue segment.

WIND POWER SITES

Analysis of major changes in revenue from energy sales and EBITDA

	REVENUE FROM ENERGY SALES		EBITDA	
	(in millions of \$)			
FISCAL YEAR ENDED DECEMBER 31, 2006	23.2	19.8		
Start-up	2.0	1.7		
Volume	0.4	0.4		
Pricing	0.4	0.4		
Green credits	0.6	0.6		
Conversion of autonomous subsidiaries	0.6	0.6		
Maintenance	-	(0.5)		
Other	-	(0.2)		
FISCAL YEAR ENDED DECEMBER 31, 2007	27.2	22.8		

During fiscal 2007, revenue from the wind power segment rose \$4.0 million or 17.2% to \$27.2 million. The segment generated 208,710 MWh in 2007, versus 189,964 MWh in 2006, a jump of 9.8% generating additional revenue of \$2.4 million. The main source of the increase was the commissioning of La Citadelle wind farm on July 18, 2007, which boosted segment revenue by \$2.0 million for the year. La Citadelle is Boralex's seventh wind

farm in France, with six wind turbines and an installed capacity of 2.3 MW each or 13.8 MW combined, ramping up the total installed capacity of the segment to 103 MW as at December 31, 2007. Moreover, most of the existing wind power sites increased production in 2007, thanks to generally favourable wind conditions and dependable equipment. However, the Cham de Cham Longe farm suffered from a shortage of equipment in the second half

of the year when a blade was struck by lightning in June. The Corporation took steps to obtain compensation for the loss of revenue, but no settlement had been reached as at December 31, 2007. Overall, the increase in the volume of production of existing power stations generated additional revenue of \$0.4 million. Lastly, wind power revenue also benefited from a \$0.6 million increase in green credit sales, the indexation of the selling price of electricity, which generated revenue of \$0.4 million and the favourable impact of a \$0.6 million due to the rise of the euro against the loonie.

This segment's annual EBITDA rose by \$3.0 million, or 15.2%, to reached \$22.8 million. Given its relatively stable cost structure and the large initial investments required, the EBITDA margin in the wind power segment versus its revenues stood at 83.8% (85.3% in 2006), compared with an average EBITDA margin of 39.0% (31.9% in 2006) for all segments, excluding the corporate

and eliminations segment. The increase in segmented EBITDA is largely attributable to the rise in production, in particular to the commissioning of the La Citadelle site. It was also ramped up by green credit sales, the indexation of the selling price of electricity and the positive impact of exchange rate fluctuations. On the other hand, the wind power segment experienced an increase of \$0.5 million in maintenance expenses, mainly due to the incident at Cham de Cham Longe. It also incurred extra expenses, mostly related to development, particularly in connection with salaries and employee benefits, as well as taxes and rentals.

In the first quarter of fiscal 2008, the installed capacity of the Avignonet-Lauragais farm will be increased by 4.6 MW. In addition, while continuing to promote development in France, Boralex is working to establish its presence in the Canadian wind power market. (For further details on wind power projects, please see *Outlook* in this MD&A.)

HYDROELECTRIC POWER STATIONS

Analysis of major changes in revenue from energy sales and EBITDA

(in millions of \$)	REVENUE FROM ENERGY SALES	EBITDA
FISCAL YEAR ENDED DECEMBER 31, 2006	10.9	7.5
Volume	(2.4)	(2.4)
Price	0.9	0.9
Capacity premiums	0.3	0.3
Translation of self-sustaining foreign operations	(0.6)	(0.5)
Other	-	(0.4)
FISCAL YEAR ENDED DECEMBER 31, 2007	9.1	5.4

HISTORICAL AVERAGE OF HYDROELECTRIC GENERATION (MWH) *

For the fourth quarter	30,911
For the year	114,868

* The historical average is determined using all production data available for each power station up to the closing of Boralex's previous fiscal year.

The hydroelectric power stations generated revenues of \$9.1 million in 2007, down from \$10.9 million in 2006, i.e., a decrease of \$1.8 million or 16.5%. The Canadian dollar's strengthening against the US dollar had an adverse impact of \$0.6 million on hydroelectric segment revenues; otherwise, the actual decrease would have been 11%. This decrease was primarily due to a 22.9% drop in hydroelectric production volume, which totalled 106,762 MWh in 2007, down from 138,518 MWh in 2006, attributable to much less

favourable water flows than those observed last year. Indeed, whereas production was 22.2% higher than historical averages in 2006, it was 7.1% lower than historical averages in 2007. In addition, the St-François River power station in Québec shut down for five weeks for equipment repairs. However, these adverse factors were offset in part by the additional \$0.9 million in revenues generated by higher electricity selling prices and by the \$0.3 million in capacity premiums collected in New York State.

The \$2.1 million or 28.0% drop in this segment's EBITDA, which totalled \$5.4 million, was primarily due to higher maintenance expenses and write-offs of property, plant and equipment due to the breakdown at the St-François power station, combined

with lower production volume and the adverse impact of currency fluctuations. These factors were offset in part, however, by higher selling prices and the capacity premiums.

WOOD-RESIDUE THERMAL POWER STATIONS

Analysis of significant changes in revenue from energy sales and EBITDA

(in millions of \$)	REVENUE FROM ENERGY SALES	EBITDA
FISCAL YEAR ENDED DECEMBER 31, 2006	71.1	5.6
Start-up	0.6	(1.2)
Volume	11.6	1.9
Pricing	9.4	9.4
RECs	19.4	19.4
Capacity premiums	3.2	3.2
Renewable energy tax credits	-	2.0
Translation of self-sustaining foreign operations	(3.4)	(0.3)
Raw materials costs	-	(6.9)
Maintenance	-	2.2
Other	-	(2.3)
FISCAL YEAR ENDED DECEMBER 31, 2007	111.9	33.0

For the year ended December 31, 2007, the wood-residue power stations recorded revenues totalling \$111.9 million, up \$40.8 million or 57.4%, from \$71.1 million in 2006. It should be noted that the Canadian dollar's strengthening against the US dollar had an adverse impact of \$3.4 million on segment revenues; otherwise, they would have grown by more than 62.2%. This strong growth was driven by the following factors (in order of importance): higher REC sales in the Connecticut market, higher segment production volume, higher average electricity selling prices in the segment and the capacity premiums from the Forward Capacity Market.

- the wood-residue segment recorded revenues of \$24.8 million from REC sales, or a \$19.4 million increase. Benefiting from more robust demand and higher prices in the Connecticut REC market, the Stratton power station increased its REC sales almost fivefold to \$15.4 million in 2007. In addition, the Livermore Falls power station qualified for the Connecticut REC market in the fourth quarter of 2007, retroactive to April 1, 2007, i.e., the beginning of the second quarter. The Livermore Falls power station recorded REC sales of \$7.3 million in the fourth quarter, relating to its production for the last three quarters of 2007. Lastly, the Chateaugay power station posted REC sales of approximately \$2.1 million in the New York State market, up from \$1.7 million in 2006. As at December 31, 2007,

the Stratton and Livermore Falls power stations had firm sales commitments totalling US\$52 million for REC deliveries between January 1, 2008 and December 31, 2012. This would tend to confirm the solid market uptrend over the medium and long terms. In this regard, the State of Connecticut recently moved to extend the REC program for an additional 10-year period, i.e., until 2020. In addition, the minimum green energy proportion imposed on distributors by the State of Connecticut will rise to 20% in 2020, up from 1.5% when the program was launched in 2005 and 7% in 2010;

- the wood-residue segment generated 1,190,265 MWh of electricity in 2007, up from 1,010,206 MWh in 2006. This 17.8% increase led to additional revenues totalling \$12.2 million, of which \$0.6 million was attributable to the start-up of the Stacyville power station for a two-month period during the first quarter of 2007, after operating for only one month in the last quarter of 2006. The increase in production volume at the five operational power stations contributed an additional \$11.6 million in revenue. This performance was primarily due to a more favourable business climate, which encouraged these power stations to boost production. In contrast, these same stations, particularly the Stratton facility, had voluntarily scaled back production in 2006 due to market conditions that were less conducive to profitability. In addition, most of the

wood-residue power stations had improved availability in 2007 thanks to the investments made over the past few years. The main goal of these investments was to improve the stability and quality of raw material supplies and to optimize production equipment efficiency. Among other things, the strengthening of preventive maintenance practices in this segment led to a reduction in machine downtime due to unexpected breakdowns and regular maintenance. It should be noted that in the second quarter of 2006, the Stratton power station shut down for 75 days following a series of equipment breakdowns, while the Fort Fairfield facility shut down for nearly a month after being struck by lightning;

- segment revenues benefited from a 15% increase (in US\$) in the average price of electricity sold by the wood-residue power plants, leading to additional revenues of \$9.4 million. This increase in the average price was due to higher contractual prices at the Fort Fairfield and Ashland facilities in 2007, as well as to a rise of approximately 7% (in US\$) in the average selling price of electricity on the open market compared with 2006. Management expects that electricity selling prices on the open market in the Northeastern United States will hold steady over the next year as a result of relatively stable natural gas prices, which are the main factor influencing electricity prices in the Northeastern United States;
- Boralex's wood-residue segment received \$3.2 million in additional capacity premiums from New England's Forward Capacity Market, which offers a royalty stream to energy producers, primarily wood-residue power stations, that agree to maintain their installed capacity.

The wood-residue segment's annual EBITDA increased by \$27.4 million, rising from \$5.6 million in 2006 to \$33.0 million in 2007. This increase was primarily due to robust REC sales, which had a direct impact of \$19.4 million on EBITDA. Higher average selling prices for electricity and higher capacity pre-

miums contributed \$9.4 million and \$3.2 million respectively to EBITDA. In addition, the profitability of the wood-residue segment benefited from a \$2.2 million decrease in maintenance expenses. It should be noted that the \$1.9 million EBITDA contribution attributable to higher production volume was offset by Stacyville's adverse \$1.2 million change in costs. Thanks to the production increase, Boralex qualified for an additional \$2.0 million in tax credits in 2007.

In addition to the \$0.3 million adverse impact attributable to currency fluctuations, the wood-residue segment's EBITDA was affected by a \$6.9 million increase in raw materials costs due to resource scarcity and increased transportation costs caused by higher prices for oil and derived products. Moreover, Boralex uses higher-quality (and thus more expensive) forest residue as part of its strategy to increase power station production and to comply fully with REC production standards. However, using higher-quality residue enabled the Corporation to improve the wood-residue power stations' average combustion rate by 5% compared with 2006; this served to partially offset higher wood-residue prices. Management is of the opinion that wood-residue prices will continue to face upward pressure in the medium and long terms due to resource scarcity and high transportation costs.

During 2007, various combustion specialists were called on to help Boralex optimize the efficiency of its facilities and to minimize the investments required to qualify the wood-residue power stations for the REC market. In response to these specialists' recommendations, Boralex made a number of changes to its operating practices and procedures and to its natural gas processing method, which also led to higher operating costs. However, management believes that higher operating costs will be largely offset by increases in revenues and by the cost reductions that have been achieved. Lastly, the marked improvement in segment profitability clearly had an impact on employees' variable compensation.

NATURAL GAS THERMAL POWER STATION

Analysis of major changes in revenue from energy sales and EBITDA

(in millions of \$)	REVENUE FROM ENERGY SALES	EBITDA
FISCAL YEAR ENDED DECEMBER 31, 2006	14.8	5.4
Volume	0.3	–
Pricing	(0.9)	(0.9)
CO ₂ quotas	–	(3.2)
Translation of self-sustaining foreign operations	0.4	–
Other	–	1.0
FISCAL YEAR ENDED DECEMBER 31, 2007	14.6	2.3

Revenue from energy sales at the natural gas power station in Blendecques, France totalled \$14.6 million, down from \$14.8 million in 2006. This drop was due to lower steam prices, although this was offset in part by increased steam sales volumes and by the favourable impact of the strengthening of the euro against the Canadian dollar. It should be noted that, as was the case in 2005 and 2006, the facility's cogeneration equipment was shut down from April to October 2007 due to high natural gas prices. Electricity production totalling 38,421 MWh was thus comparable to the previous year's figure. The industrial client continued to be supplied with steam using an auxiliary boiler. As was the case in 2005 and 2006, the power station restarted its cogeneration equipment in 2007 in the month of November; the equipment was shut down again in April 2008 and will remain idle until natural gas costs drop significantly and marginal operating profitability becomes positive, which according to management currently seems unlikely.

The Blendecques power station's EBITDA dropped by \$3.1 million to \$2.3 million in 2007, down from \$5.4 million in 2006. This drop reflected lower steam prices, which had an adverse impact of \$0.9 million on EBITDA; it was primarily due, however, to the fact that the facility had sold \$3.2 million in excess CO₂ emissions allowances in 2006, including the advance sale of its 2007 production, whereas it had no such quotas for sale in 2007. It should be noted that during the fourth quarter of 2007, the Blendecques power station entered into forward sales agreements totalling \$1.8 million covering a portion of its anticipated excess CO₂ emissions in 2008 and 2009. This station pays a patronage refund based on its steam client's profitability. Since \$3.2 million in CO₂ quotas were sold in 2006, this patronage refund decreased by approximately \$0.8 million compared with 2006.

ANALYSIS OF OPERATING RESULTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2007

Analysis of major changes in net earnings

	NET EARNINGS (IN MILLIONS OF DOLLARS)	PER SHARE (IN DOLLARS)
THREE-MONTH PERIOD ENDED DECEMBER 31, 2006	4.6	0.15
EBITDA	6.6	0.18
Amortization	0.9	0.02
Financial instruments	(0.4)	(0.01)
Financing costs	0.7	0.02
Income tax expense	(6.7)	(0.18)
Other	0.2	0.01
Impact of the June 2007 share issue	–	(0.03)
THREE-MONTH PERIOD ENDED DECEMBER 31, 2007	5.9	0.16

During the fourth quarter of 2007, Boralex recorded net earnings of \$5.9 million or \$0.16 per share (\$0.15 diluted), compared with net earnings of \$4.6 million or \$0.15 per share (basic and diluted) in the same quarter of 2006. The increase in net earnings was due to two main factors: the wood-residue segment's operating profitability, which was primarily attributable to REC sales, and a decrease in consolidated amortization and financing expenses.

However, the increase in the income tax expense reduced the favourable impact of these factors on net earnings. These changes are discussed in greater detail in the following section. The growth in earnings per share was reduced by the increase in the weighted average number of shares outstanding, which rose from 30.0 million to 37.5 million as a result of the shares issued on June 7, 2007.

Analysis of major changes in revenue from energy sales and EBITDA

(in millions of \$)	REVENUE FROM ENERGY SALES	EBITDA
THREE-MONTH PERIOD ENDED DECEMBER 31, 2006	35.5	12.0
Start-ups	–	0.5
Volume	(0.6)	(1.5)
Pricing	3.6	3.6
RECs and green credits	9.2	9.2
Capacity premiums	0.8	0.8
CO ₂ quotas	–	(0.3)
Translation of self-sustaining foreign operations	(3.1)	(0.6)
Raw materials costs	–	(4.5)
Maintenance	–	1.2
Administrative fees	–	(1.2)
Share of the Fund's results	–	(0.9)
Other	–	0.3
THREE-MONTH PERIOD ENDED DECEMBER 31, 2007	45.4	18.6

REVENUE FROM ENERGY SALES

Revenue from energy sales totalled \$45.4 million during the three-month period ended December 31, 2007, up \$9.9 million or 27.9% from \$35.5 million in the same period of 2006. It should be noted that currency fluctuations, primarily the Canadian dollar's strengthening against the US dollar, had a major adverse impact of \$3.1 million on revenues; otherwise, revenue growth would have been approximately 37%. This growth is primarily attributable to the wood-residue segment. The changes in segmented revenues were as follows:

- wood-residue segment revenues increased by \$10.1 million or 50.7% despite the \$2.5 million adverse impact attributable to currency fluctuations. If exchange rates had remained steady, revenue growth would have been approximately 63%. This performance was primarily due to the collection of \$10.8 million in revenues from REC sales, i.e., an increase of \$8.5 million compared with the \$2.3 million recorded last year. This reflected an increase in REC sales at the Stratton power station compared with 2006 and was primarily due to the Livermore Falls power station's qualification for the REC program in Connecticut, thus enabling it to record its REC production for the second, third and fourth quarters of 2007 (totalling \$7.3 million) in the fourth quarter of 2007. In addition, the increase in the average selling price of electricity stemming from the renewal of the sales agreements for two of the segment's power stations at the beginning of the year and from the general increase in market prices contributed \$3.2 million in additional revenues. Furthermore, the segment received \$0.8 million in additional capacity premiums and slightly increased its production volume;
- revenue from energy sales in the wind power segment increased by 3.6% (if exchange rates had held steady, this increase would

have been 5.3%). The additional contribution of the new La Citadelle site, together with the revenues generated by the sale of green credits and the indexing of electricity selling prices, generated additional revenues totalling \$1.8 million; the impact of these factors, however, was offset by an 18.5% drop in production volume at the existing sites. This drop was primarily due to better wind conditions in the fourth quarter of 2006. Total production during the fourth quarter of 2007 was approximately 10% below long-term expectations;

- hydroelectric segment revenues declined by 12.1% due to currency fluctuations. If exchange rates had held steady, segment revenues would have been comparable to those recorded in the corresponding quarter of 2006. The increase in market selling prices of electricity offset the 15.8% decrease in production volume attributable to less favourable water flows than those observed in 2006. Water flows in 2007 were 3.2% better than the historical average, whereas conditions in 2006 were 24.4% better than the historical average;
- excluding the impact of currency fluctuations, the natural gas thermal power station recorded comparable revenues to those posted in 2006, with the slight increase in production volume offsetting the drop in steam prices.

OTHER REVENUES

Boralex generated \$3.5 million in revenues other than revenue from energy sales during the fourth quarter of 2007, down from \$4.5 million during the same quarter of 2006. This decrease was due to a drop of approximately \$0.9 million in Boralex's share of the Fund's results due to less favourable water flows than those observed in 2006 and to the Canadian dollar's strengthening against the US dollar.

EBITDA

Consolidated EBITDA during the fourth quarter of 2007 totalled \$18.6 million, up \$6.6 million or 55.0% from the \$12.0 million in the same quarter of 2006. The following factors (in order of importance) had a favourable impact on the changes in quarterly EBITDA:

- a \$9.2 million increase in revenues from REC sales was reflected directly in EBITDA;
- the increase in average selling prices for electricity had a direct impact of \$3.6 million on EBITDA;
- the Corporation recorded a \$1.2 million decrease in maintenance expenses;
- capacity premiums from the Forward Capacity Market had a direct impact (totaling \$0.8 million) on EBITDA.

However, fourth-quarter profitability was affected by a number of adverse factors. The main factors are as follows:

- a \$0.9 million decrease in the share of the Fund's results resulting from the decline in the Fund's operating results;
- a \$4.5 million increase in raw materials costs, primarily due to the wood-residue segment;
- a drop in production volume, particularly in the wind power segment, which had an impact of \$1.5 million on EBITDA;
- a \$1.2 million increase in administrative expenses primarily due to the strengthening of Boralex's team, in addition to an increase in stock-based compensation expenses and an increase in the capital tax.

Other adverse factors included currency fluctuations, the reduction in sales of excess CO₂ emission allowances at the natural gas power station in France and maintenance expenses at the idle Stacyville wood-residue power station, largely offsetting the gains made by starting up the La Citadelle wind farm.

The changes in segmented quarterly EBITDA were as follows:

- the wood-residue segment was the primary contributor to consolidated EBITDA, generating \$10.7 million in segmented EBITDA, up from \$1.2 million last year. This was attributable to the following factors (in order of importance): an \$8.7 million increase in the segment's REC sales primarily due to the Livermore Falls power station's retroactive qualification; an additional \$3.2 million contribution caused by the increase in average selling prices for electricity; a \$1.3 million decrease in the segment's maintenance expenses; and the collection of \$0.8 million in additional capacity premiums. Taken together, these factors contributed to the \$14.0 million improvement in the segment's EBITDA. This largely offset the \$4.2 million increase in the segment's raw materials costs due to high wood-residue prices primarily attributable to higher transportation costs and to more extensive use of forest residues. The wood-residue segment's quarterly EBITDA was also affected by a number of less significant factors, including the Canadian dollar's strengthening against the US dollar, maintenance expenses at the idle Stacyville power station and increases in certain administrative expenses;

- the wind power segment's EBITDA increased by approximately 2.9% to \$7.0 million. The additional \$1.0 million contribution from the La Citadelle wind farm, green credit sales totalling \$0.5 million and the indexing of electricity selling prices were offset by a drop in production volume at the existing sites; this drop had an adverse impact of \$1.4 million on EBITDA. To a lesser extent, segment profitability was also affected by a slight increase in maintenance expenses due to the incident at the Cham de Cham Longe site in summer 2007, as well as by currency fluctuations;
- despite the increase in the hydroelectric segment's average selling price of electricity, the segment's quarterly EBITDA declined by \$0.4 million due to the drop in production volume, the Canadian dollar's strengthening and the recognition of \$0.2 million in insurance proceeds during the fourth quarter of 2006;
- the natural gas thermal power station's EBITDA decreased by \$0.6 million due to the combined effect of higher natural gas costs, lower selling prices for steam and currency fluctuations, as well as to the fact that there were no excess CO₂ emissions allowances for sale.

AMORTIZATION, FINANCIAL INSTRUMENTS, FINANCING COSTS AND EARNINGS BEFORE INCOME TAXES

Amortization expenses for the fourth quarter totalled \$5.5 million in 2007, down from \$6.4 million in 2006. This 14.1% drop was primarily due to the 2006 write-off of a piece of equipment at the Stratton power station in the amount of \$0.7 million, in addition to the 2006 amortization of the Stacyville power station's electricity sales agreement, which expired on December 31, 2006.

Financing expenses totalled \$3.2 million in 2007, down from \$3.9 million in 2006. This \$0.7 million or 17.9% drop was primarily due to the following factors:

- a decrease of approximately \$1.4 million following the issue of shares in 2007, enabling the Corporation to pay off its revolving credit line and invest the remainder in guaranteed short-term investments;
- an increase caused by the amortization of monetization program expenses and the recognition of the program-related discount and financing expenses, for a total of approximately \$0.8 million. It should be noted that the monetization program was launched on December 1, 2006 and was thus in effect for two months during the fourth quarter of 2007;
- a routine decrease in interest expenses due to periodic repayment of the Corporation's debts.

In addition, Boralex recorded a loss of \$0.4 million on financial instruments during the fourth quarter, primarily representing the ineffective portion of the Corporation's electricity financial swaps for the period. It should be noted that all of these swaps qualify as hedge accounting and are highly effective for managing price risks in the electricity market.

Boralex recorded \$9.6 million in earnings before income taxes for the fourth quarter of 2007, up from \$1.7 million for 2006.

INCOME TAX EXPENSE (RECOVERY)

For the fourth quarter of 2007, Boralex's income tax expense totalled \$3.7 million, compared with a \$3.0 million income tax recovery for 2006, i.e., an adverse variation of \$6.7 million. During the fourth quarters of 2007 and 2006, the Government of Canada announced a series of income tax cuts, which were reflected in the income tax expense. The impact of these tax cuts was favourable in both cases, totalling \$0.7 million in 2006 and \$1.6 million in 2007. In addition, Boralex reversed its provisions for tax risks that did not materialize in the amount of \$0.7 million in 2006 and \$0.5 million in 2007. Moreover, the proportion of non-taxable dividends received from the Fund was higher in 2006 and reduced the income tax expense by approximately

\$1.6 million. Lastly, as described in the analysis of Boralex's annual results, the monetization of US tax credits and the wood-residue power stations' increased profitability led to additional income tax expenses.

NET EARNINGS

During the fourth quarter of 2007, Boralex recorded net earnings of \$5.9 million or \$0.16 per share (\$0.15 diluted), down from \$4.6 million or \$0.15 per share (basic and diluted) in the same quarter of 2006. The weighted average number of shares outstanding totalled 37.5 million during the fourth quarter of 2007, up from 30.0 million during 2006, due to the shares issued on June 7, 2007.

To summarize, Boralex's operating profitability during the fourth quarter of 2007 grew significantly thanks to the wood-residue segment's fine performance. The qualification of a second power station for the REC program in Connecticut, the increase in selling prices for electricity and the collection of recurring royalties for capacity maintenance all contributed to a major improvement in the segment's results throughout 2007, particularly during the fourth quarter.

ANALYSIS OF MAJOR CASH FLOWS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2007

OPERATING ACTIVITIES

During the fourth quarter of 2007, cash flows from operating activities more than doubled to \$16.0 million, up from \$7.9 million during the same quarter of 2006. This \$8.1 million increase was primarily due to the wood-residue segment's increased profitability. In addition, changes in non-cash working capital items required more than \$10.0 million in funds during the fourth quarter (compared with \$2.4 million in funds in 2006), primarily due to a \$13.1 million increase in accounts receivable between September 30 and December 31, 2007. This increase was attributable to the recognition of REC sales totalling \$10.8 million during the fourth quarter of 2007; the related payments will be received in the first and second quarters of 2008 in accordance with the rules governing this market. Consequently, Boralex's operating activities during the fourth quarter of 2007 generated net cash flows of \$6.0 million, up from \$5.6 million during the corresponding quarter of 2006.

For fiscal 2007, cash flows from operating activities more than doubled to \$51.5 million, up from \$24.5 million in 2006. This \$27.0 million increase was primarily due to increased profitability in the wood-residue segment and at the wind power sites, as well as to funds received under the US tax credit monetization program. Changes in non-cash working capital items required \$16.5 million

in funds during 2007 (compared with \$10.7 million in funds in 2006). In addition to a \$12.2 million increase in accounts receivable primarily due to REC sales, Boralex recorded a \$2.7 million increase in inventories, primarily due to Boralex's new wood-residue storage strategy aimed at ensuring greater availability and improved raw material quality in the wood-residue segment. Boralex's operating activities thus generated net cash flows totalling \$35.1 million during fiscal 2007, up from \$13.8 million in 2006.

INVESTING ACTIVITIES

During the fourth quarter of 2007, Boralex invested \$7.8 million, including \$5.6 million in property, plant and equipment, up from \$1.5 million in 2006. Investments in new property, plant and equipment primarily pertained to the launch of the project aimed at increasing the installed capacity at the wind power site in Avignonet-Lauragais, France from 8 MW to 12.6 MW by the end of the first quarter of 2008, as well as to the turbine modernization at the Stratton wood-residue power station, which will lead to efficiency improvements, among other things. The additional \$2.1 million invested in other assets was primarily used to purchase crushing equipment for the wood-residue segment in a bid to ensure that forest residues account for a growing proportion of its supplies and to cover development expenses relating to various projects, most notably in the wind power segment in Canada and in the solar power segment in Spain.

For fiscal 2007, Boralex made net investments of \$23.5 million, including \$22.5 million in property, plant and equipment (up from \$19.2 million in 2006), primarily aimed at developing the La Citadelle wind farm and bringing it into service, expanding the Avignonet-Lauragais facility and making equipment improvements in the wood-residue segment. The Corporation also invested \$7.2 million in other assets, including approximately \$4.6 million in development projects in Canada and Europe, in addition to a net investment of \$2.6 million in its program to purchase crushing equipment in the wood-residue segment. Moreover, thanks to the refinancing carried out in France (described below), the Corporation freed up \$6.2 million of the amounts allocated to the reserves required under the financing arrangement for the Massif Central sites.

FINANCING ACTIVITIES

During the fourth quarter, no significant financing activities were carried out, other than the repayment of \$1.5 million in long-term debt. In addition, the following two important events occurred during the second quarter of 2007:

- On June 7, 2007, the Corporation completed the public issue of 7,333,334 Class A shares for total proceeds of \$110.0 million. Overall, the share issue generated net proceeds of \$105.3 million, which was used to temporarily reduce the amounts borrowed on Boralex's revolving credit line by \$52.7 million. The balance of the proceeds was temporarily allocated to investments guaranteed by a Canadian bank and offering maximum liquidity. This capital contribution significantly strengthened Boralex's balance sheet and will enable the Corporation to consider a number of expansion projects that could significantly increase its installed capacity over the next five years. For example, during the third quarter of 2007, the Corporation signed a memorandum of agreement with a private developer of renewable energy projects based in Ontario, Canada to acquire the rights to a portfolio of sites totalling 90 MW. In September 2007, Boralex and its partners

announced that three bids for wind power projects totalling 375.2 MW had been submitted in connection with Hydro-Québec's call for tenders for 2,000 MW of wind power. It should be noted that the bank financing was negotiated in order to cover the full term of the potential contracts. (For further information on both of these development projects, please see *Outlook*.)

- On June 25, 2007, Boralex completed the refinancing of a number of its French credit agreements by means of a new master financing agreement in the amount of €265 million (approximately \$380 million), which will be used to develop the Corporation's wind power projects in France until 2010. As with the former financing arrangement, the new master agreement, which is for a larger amount and a longer term, is provided through BNP Paribas S.A. as arranger, principal bank and agent. In addition to repaying existing financing for the Ally, Cham de Cham Longe, Plouguin and La Citadelle sites for a total of approximately \$130 million as at the transaction date, the master agreement provides Boralex with greater flexibility as regards funds availability in France and ensures that the Corporation will benefit from more advantageous financial conditions, reflecting the accumulated experience of its wind farms. In addition, the consolidation of the Ally, Cham de Cham Longe, Plouguin and La Citadelle sites, thanks to increased diversification in the project portfolio, made it possible to reduce the reserves required for debt servicing and thus to reduce the size of the bridging loan issued in conjunction with the construction of the Ally and Cham de Cham Longe sites. The funds thus released were used to partially repay the bridging loan issued in conjunction with the construction of the Ally and Cham de Cham Longe sites. In addition, since this bridging loan was secured by a letter of credit drawn on the Canadian credit facility, the Corporation increased its borrowing capacity by approximately \$14 million. The costs relating to these transactions totalled approximately \$2 million (€1.4 million).

To summarize, the total cash flows for fiscal 2007, net of the translation adjustment on cash and cash equivalents, increased cash by \$65.3 million, i.e., rising from \$13.9 million as at December 31, 2006, to \$79.2 million as at December 31, 2007, thanks primarily to the June 2007 share issue.

FINANCIAL POSITION AS AT DECEMBER 31, 2007

GENERAL COMMENTS

As described in note 3 to the consolidated financial statements accompanying this report, the balance sheet as at December 31, 2006 was restated to reflect the amortization method change for the natural gas power station and two of the French wind power sites.

In addition to the net earnings for fiscal 2007, the changes in Boralex's financial position between December 31, 2006 and

December 31, 2007 primarily reflect the June 2007 share issue, whose net proceeds were used to temporarily reduce the revolving line of credit and increase cash reserves pending the financing of future expansion projects. The construction of the La Citadelle site also increased the Corporation's assets and liabilities.

ASSETS

As at December 31, 2007, total assets amounted to \$514.7 million, up from \$476.0 million as at December 31, 2006. This \$38.7 million

increase was due to the rise in current assets, in particular a \$65.3 million increase in cash and cash equivalents stemming from the injection of a portion of the proceeds of the share issue completed on June 7, 2007 in addition to a \$14.9 million increase in accounts receivable and inventories primarily attributable to the wood-residue segment. The decreases in property plant and equipment and in electricity sales agreements were primarily attributable to the effects of amortization, which more than offset the start-up of La Citadelle, the investments in the wood-residue segment and the acquisition of rights to development projects. Currency fluctuations had little impact on long-term assets since the euro's strengthening against the Canadian dollar offset the Canadian dollar's strengthening against the US dollar.

WORKING CAPITAL

As at December 31, 2007, Boralex posted a working capital surplus of \$81.8 million, compared with a \$14.6 million deficit as at December 31, 2006. In addition to proceeds from the share issue, the increase in working capital compared with December 2006 stemmed from the partial repayment of the bridging loan following the refinancing of the wind power segment in France, as described above.

TOTAL DEBT AND SHAREHOLDERS' EQUITY

As at December 31, 2007, the Corporation's debt amounted to \$175.5 million, down \$58.8 million or 25.1% from \$234.3 million as at December 31, 2006. Net of cash and cash equivalents, total net debt fell by \$124.1 million or 56.3%, declining from \$220.4 million as at December 31, 2006 to \$96.3 million as at December 31, 2007 thanks to the share issue, the French refinancing, improved operating cash flows and regular debt repayments.

In addition, as a result of the share issue and the net earnings for fiscal 2007, net of accumulated other comprehensive income, equity increased by \$102.8 million or 56.5% between December 31, 2006 and December 31, 2007, rising from \$182.0 million to \$284.8 million at 2007 year-end. Consequently, the ratio of total net debt to invested capital (total net debt plus shareholders' equity) fell from 54.8% as at December 31, 2006 to 25.3% as at December 31, 2007. In addition, in light of Boralex's share price, which stood at \$17.25 as at December 31, 2007, the total debt to market capitalization ratio was 27.2% as at December 31, 2007, compared with 75.0% as at December 31, 2006, when the share price was \$10.40.

As at December 31, 2007, the Corporation had an unused balance of approximately €170.9 million (\$246.6 million) under the new €265 million master credit agreement, giving Boralex considerable latitude to initiate new wind power projects in France by 2010. As regards the US financing that expired on July 31, 2007 with a balance payable of \$3.5 million (US\$3.5 million) as at December 31, 2007, the Corporation renewed the credit agreement for a period of three years under similar terms.

It should be noted that following the adoption of the recommendations set out in the Canadian Institute of Chartered Accountants (« CICA ») Handbook Section 3855, the Corporation reclassified its deferred financial expenses against its long-term debt, for a total of \$4.6 million.

OUTLOOK

Boralex's management believes that the Corporation will perform well in 2008 because it is likely to benefit from the main positive factors that enhanced its performance in 2007, including the following:

- Connecticut's robust REC market, in which two of Boralex's power stations are now participating.
- Electricity price relative stability, which should remain in line at levels comparable to those of 2007 given current natural gas price trends.
- The start-up of the 13.8 MW La Citadelle wind power site in July 2007, which is particularly promising since wind power assets are associated with long-term sales agreements and high profit margins.
- Potential wind power projects totalling 375 MW in Québec, 90 MW in Ontario and 4.6 MW in France.
- The positive impact of investments over the past two years aimed at continually improving the efficiency of the wood-residue power stations and optimizing their raw material supplies.
- Access to new revenue and profit streams such as the Forward Capacity Market.
- The reduction in financing expenses stemming from the Corporation's solid financial position.

In a longer-term perspective, the Corporation is currently working on a variety of major projects, primarily in the wind power segment; these projects could lead to major increases in its installed capacity and revenue streams over the next three to five years. Indeed, Boralex aims to have 1,000 MW of installed capacity under contract within the next five years.

WIND POWER

During fiscal 2008, the La Citadelle wind farm will be contributing fully to the wind power segment's results, as opposed to its limited five-month contribution in 2007. In addition, the Avignonet-Lauragais wind farm's installed capacity will have increased by 4.6 MW by the end of the first quarter of 2008. Boralex recently reinforced its development team in France in a bid to acquire or undertake new wind farm projects; this is why the Corporation has a \$246.6 million credit facility available.

While it continues its development efforts in France, Boralex is also seeking to establish a foothold in the Canadian wind power market. On July 9, 2007, the Corporation announced that it had signed a memorandum of agreement with a private developer of renewable energy projects in Ontario, Canada, in order to acquire the rights to a portfolio of sites totalling 90 MW and thus to proceed with the construction of nine wind farms, each with an installed capacity of 10 MW, near Lake Erie in the Windsor region of southern Ontario. Each of these wind farms has entered into a 20-year electricity sales agreement with the Ontario Power Authority, which will purchase their entire production under the *Renewable Energy Standard Offer Program*. This will enable Boralex to obtain a rate of \$110/MWh (in 2007 dollars) for its wind power production. The acquisition of these projects and the beginning of the construction work are subject to the fulfilment of certain conditions.

The Corporation has completed a full year of on-site wind studies and obtained most of the required permits. Consequently, Boralex aims to bring the first three sites combining 30 MW into service in late 2008. The turbines required to carry out these three projects have been ordered from Enercon; Boralex is currently in negotiations with a view to purchasing turbines for six additional projects.

In Québec, the Corporation and its partners (Gaz Métro and the Séminaire de Québec) announced on September 19, 2007 that three tenders for wind power projects totalling 375.2 MW had been submitted in connection with Hydro-Québec's call for proposals for 2,000 MW of wind power. The projected installed capacities of the three wind farms, which are all located on the Seigneurie de Beaupré site owned by the Séminaire de Québec, are 103.3 MW, 132.6 MW and 139.3 MW respectively. This site offers a number of key advantages, including major wind power potential and proximity to Hydro-Québec TransÉnergie's interconnection lines. In addition, since the site is located far away from any urban or residential areas, the visual, sound and environmental impacts will be all but non-existent. The consortium is currently working in association with Enercon, a wind power system manufacturer whose expertise is acknowledged worldwide and which plans to build a plant with wind power components in Matane, Québec. Hydro-Québec's response to the submissions will be announced in spring 2008.

Once these projects have been completed, the Corporation's total installed capacity in the wind power segment will have increased almost fivefold. In addition, these projects are fully consistent with Boralex's geographical and segment diversification strategy.

HYDROELECTRIC POWER

The hydroelectric power stations reported significantly less favourable water flows in 2007 compared with historical averages. Conditions have been relatively good thus far in 2008, although it is impossible to predict whether this trend will continue. Nevertheless, Boralex's hydroelectric segment has traditionally been a reliable profit and cash flow generator.

Boralex's management anticipates growth opportunities in Canada over the next few years, particularly in British Columbia, where the provincial government has announced plans to launch calls for tenders in 2008 aimed at developing renewable energy infrastructure capable of producing 5,000 GWH in a bid to achieve energy autonomy by 2016 and perhaps to meet a portion

of California's green energy needs. In this context, Boralex has emerged as a solid partner on the strength of its extensive experience in developing and acquiring hydroelectric power stations and ensuring their optimal operation.

THERMAL POWER

As at December 31, 2007, the Stratton and Livermore Falls power stations had firm sales commitments totalling nearly US\$52 million for REC deliveries between January 1, 2008 and December 31, 2012. In addition, in 2007, the State of Connecticut extended the REC program for an additional 10-year period, i.e., until 2020. Moreover, the minimum green energy proportion imposed on distributors by the State of Connecticut will rise to 7% in 2010 and to 20% in 2020, compared with less than 2% when the program was launched in 2005. This would tend to confirm the solid uptrend in this market over the medium and long terms. In addition, the Corporation plans to claim US renewable energy tax credits until the program's anticipated end date (i.e., December 31, 2009); these credits totalled \$12 million in 2007.

However, the high cost per ton of wood-residue will continue to affect this segment. Wood-residue costs have risen sharply in recent years, primarily due to increased transportation costs stemming from higher oil prices and to a change in raw materials composition favouring more extensive use of virgin forest residues. Since 2004, Boralex has implemented and will continue to implement solutions aimed at controlling these costs, including strategies aimed at stabilizing its wood-residue supply and optimizing the efficiency of its facilities. Boralex will be continuing its efforts to improve profitability in this segment.

In France, the cogeneration equipment at the Blendecques natural gas power station was brought back into operation in November 2007 for the winter period. However, due to continued high natural gas prices, management currently anticipates that the station's cogeneration equipment will be shut down again next year from April to October and that the station's industrial client will continue to be supplied with steam using an auxiliary boiler, unless natural gas costs drop significantly and marginal operating profitability increases sufficiently to justify these costs.

FUND DISTRIBUTIONS

On February 22, 2008, the Fund announced that it was reducing its distributions to \$0.70 per trust unit on an annualized basis. As a result, the Corporation's annual cash flows declined by \$2.4 million, net of income taxes.

To summarize, thanks to the robust REC market, in addition to the improved performance of the wood-residue segment and expansion in the wind power segment, management anticipates that revenues, earnings and cash flow from operations will grow in the coming quarters, thereby enabling Boralex to provide for its normal cash requirements. In addition, the recent share issue and the new master financing agreement in France significantly strengthened the Corporation's financial position, allowing it to pursue current and future expansion projects. In the short term, Boralex does not plan to pay dividends on its Class A shares, in keeping with its policy to reserve its cash assets for growth projects.

Boralex's outlook is also positive in the longer term, thanks to the quality and diversification of its assets and its expertise in the area of green and renewable power generation, reflecting a growing worldwide trend. In addition to promoting its expertise in developing and producing wind, hydroelectric and thermal power, Boralex is currently examining potential development projects in new non-fuel renewable energy sectors. In particular, the Corporation is currently working with a number of partners on solar energy projects in Spain. Boralex is also interested in new technologies such as gasification and methanization. In general, Boralex will continue to prudently capitalize on opportunities that arise in its fields of expertise while remaining on the lookout for new technologies and paying close attention to the responsible management of its operating costs and business risks.

CAPITAL STOCK INFORMATION

As at December 31, 2007, Boralex's capital stock consisted of 37,454,625 Class A shares issued and outstanding, up from 30,049,586 as at December 31, 2006 following the issue of 7,333,334 new shares in the second quarter of 2007. A total of 71,705 stock options were exercised and 151,745 options were granted during 2007. As at February 28, 2008, there were 1,256,146 stock options outstanding, of which 680,131 were exercisable.

FINANCIAL INSTRUMENTS

MARKET RISK

As at December 31, 2007, the Corporation had entered into three electricity swaps for total deliveries of 177,744 MWh over periods varying from 9 to 15 months. All financial electricity swaps as at December 31, 2007 were designated as hedges associated with future electricity deliveries and their unfavourable fair value amounted to \$0.1 million (US\$0.1 million). These contracts qualify for hedge accounting.

INTEREST RATE RISK

Boralex carries long-term debts bearing interest at variable rates. As at December 31, 2007, approximately 86% of long-term debt issued bore interest at variable rates, as do the bank loans and advances. As at December 31, 2007, the Corporation had issued letters of credit totalling \$11.9 million, although it had drawn no funds from this credit facility. If the Corporation uses this credit and interest rates rise sharply in the future, the liquid assets available for the Corporation's development projects could be affected. As discussed in note 11 to the consolidated financial statements, since the Corporation uses interest rate swaps, its exposure to interest rate fluctuations is reduced to only 17% of total debt. As at December 31, 2007, the notional balance of

these swaps was \$122.7 million (€85 million) and their favourable fair value was \$4.6 million (€3.2 million).

As a result of the refinancing completed on June 25, 2007, the Corporation had to discontinue the hedging relationship that had been established for certain interest rate swaps, which were eligible for an effectiveness test exemption, since the key conditions associated with them were identical to those of the hedged item. These swaps were re-designated as hedges for new debts, because it was mathematically proven that they are highly effective. Their favourable fair value was \$6.2 million (€4.3 million) on the designation date.

FOREIGN EXCHANGE RISK

In the normal course of business, Boralex is not significantly exposed to currency fluctuations because its foreign operations are self-sustaining and because the Corporation prefers to retain its liquid assets to develop these subsidiaries. However, the turbine supplier for the initial 30 MW phase of the Ontario wind power project is German; this means that the turbines will be paid for in euros, whereas the site operations will generate cash flows in Canadian dollars. To protect the expected project return, the Corporation used a series of series of tunnel options that allow it to purchase euros in a corridor with a ceiling price of 1.4180 and floor price of 1.3695 Canadian dollar per euro. A characteristic of the floor price is that it increases to the ceiling price if the Canadian dollar-euro exchange rate goes below 1.3695. This threshold was reached on October 31, 2007. Since the floor and ceiling prices will henceforth be the same amount, the options behave essentially the same as a foreign currency forward contract. These options were entered into to hedge the purchase of 15 turbines scheduled for delivery in 2008. As at December 31, 2007, the favourable fair value of these options was \$0.9 million.

RELATED PARTY TRANSACTIONS

In addition to holding 23.3% of the Fund's trust units, the Corporation, through one of its wholly owned subsidiaries, is linked to the Fund under long-term management and administration contracts. For the year ended December 31, 2007, these agreements generated 3.2% of Boralex's total revenues (3.9% in 2006), while its share of the Fund's results was 3.8% (7.1% in 2006). Boralex received distributions from the Fund totalling \$12.4 million in 2007 (\$12.4 million in 2006).

One of Boralex's power stations in France supplies steam to a French division of Cascades Inc. The latter has significant influence over Boralex since it holds 34% of its share capital.

In 2007, revenues from this division totalled \$8.5 million (\$7.9 million in 2006).

The Corporation also entered into a management agreement with an entity controlled by Bernard Lemaire, one of Boralex's directors and officers, and his family. In 2007, revenues under this agreement totalled \$0.4 million (\$0.5 million in 2006).

Related party transactions are recorded at the exchange value, which corresponds to the amount negotiated and agreed to by the related parties in the normal course of business. The terms and conditions are comparable to those that would have been established by non-related parties.

COMMITMENTS AND CONTINGENCIES

CONTRACTUAL OBLIGATIONS

(in millions of \$)	Total	PAYMENTS				
		2008	2009	2010	2011	2012 +
Long-term debt and leases	180.1	26.8	15.0	16.8	13.3	108.2
Purchase obligations	59.0	59.0	–	–	–	–
Other obligations	21.7	1.9	2.0	2.2	1.7	13.9
Total	260.8	87.7	17.0	19.0	15.0	122.1

FUND-RELATED COMMITMENTS

- a) Under the terms of a management agreement ending February 19, 2022 with renewable successive five-year terms, the Corporation has undertaken to provide operation, supervision, maintenance, security, management and administration services for eight power stations. These services cover all employee wages, salaries and benefits related to these facilities, as well as the use of the Corporation's centralized control system. The fee is indexed annually based on the Consumer Price Index for the preceding twelve months. For the year ended December 31, 2007, the management fee under this agreement was \$5.2 million (\$5.2 million for 2006).
- b) The Corporation has undertaken to provide, according to terms similar to those described in (a), the complete management of two hydroelectric power stations located in the State of New York (the "Adirondack facilities") and owned by the Fund. More specifically, the amounts payable under this agreement are limited to operating expenses and monthly compensation to the Corporation covering the employee wages, salaries and benefits related to the operation, supervision, maintenance, security, management and administration of the Adirondack facilities and of the overhead expenses thereof. Fees for this

agreement were \$0.4 million for the year ended December 31, 2007 (\$0.3 million for 2006). This agreement will end in 2023 but is renewable for additional five-year terms at the option of the manager.

OTHER COMMITMENTS AND CONTINGENCIES

- a) Under a long-term contract expiring in 2027, the Corporation is committed to selling 100% of its electricity production from a hydroelectric power station located in the United States. On January 1, 2007, the Corporation renewed its power sales agreement for an additional term of 26 months with respect to two of its wood-residue thermal power stations. These contracts expire on February 28, 2009. Lastly, in Canada and France the Corporation is committed to selling 100% of its electricity and steam production under long-term contracts expiring as follows:

SOURCE	PRODUCTION TYPE	EXPIRY
Canada	Electricity	2010 and 2021
France	Electricity	Between 2013 and 2022
France	Steam	2022

- b) To operate the Middle Falls power station in the United States, the Corporation leases the land where the facilities are situated from Niagara Mohawk Power Corporation under a lease that runs until 2027. Until 2013, payment is a fixed amount that is indexed at 3% per year. In 2007, the rent was \$0.4 million (\$0.4 million in 2006) and will be indexed at 3% per year until 2013. As of 2014, the rent will be variable at 30% of the power station's gross revenue.
- c) The Corporation is committed under forward sales contracts to sell the RECs earned by its U.S. power stations that have qualified as a renewable energy producer in Connecticut. As at December 31, 2007, the balance of these commitments totaled about \$51.4 million (US\$52 million) for periods between January 2008 and December 2012.
- d) Under the supply agreements for its wood-residue power stations, the Corporation has undertaken to receive deliveries of certain minimum quantities. Based on production forecasts, the Corporation will purchase quantities greater than the contract minimums.
- e) Over the years, the Corporation has sold portions of its enterprises, including electrical power stations to the Boralex Power Income Fund. Under the agreements with respect to these sales, the Corporation could be required to indemnify the purchaser for liabilities arising from events prior to the sale, whether in connection with labour, tax, environmental, judicial or other matters, or arising from representations made by the Corporation. Indemnification guarantees of this type extend mainly over periods of less than 10 years. The maximum amount associated with these guarantees may not exceed the proceeds from the sales in the amount of \$382.3 million. At the time of writing, the Corporation deems that it has no liabilities under these guarantees.
- f) With respect to the wind power projects, the Corporation signed a turnkey maintenance contract with GE Wind Energy and Enercon. The initial contract period is five years, with anticipated annual expenditures of about €0.8.
- g) With respect to the wind power projects in Ontario (Canada), the Corporation signed an equipment purchase agreement. The total cost of the commitment is \$56.2 million, or €37.4 million plus \$2.2 million. Disbursements will take place in 2008. The euro amount payable was covered by foreign currency options, as discussed in section *Financial Instruments*.
- h) After the Fund received a notice of termination of service contract (the "Notice") for the operation and maintenance of the Dolbeau power station from Bowater, the Fund sent Bowater a notice to arbitrate in order to submit the two parties' disputes to arbitration. At the same time and in accordance with the service contract, the Fund applied to Superior Court of Québec for an injunction to have the effect of the Notice suspended for the duration of the arbitration process. On January 22, 2008, the Superior Court allowed the Fund's injunction and ordered Bowater to fulfill its obligations under the service contract until the arbitrators made their final decision. Furthermore, on the

date hereof, the arbitration court was formed and the parties are finalizing their respective cases. On February 12, 2008, Bowater filed a petition for permission to appeal the decision of the injunction judgment.

In one of its notices to the Fund, Bowater claimed damages of \$8.3 million. The Fund considers that it has diligently fulfilled its obligations to Bowater, that the unilateral termination of contract is unfounded and that the contract is valid. To that end, the Fund intends to use all recourses available to defend and vigorously assert its rights. Given all the facts surrounding this case, the Fund considers it impossible to determine if there is a potential loss and if so, for what amount. Consequently, no provision was recorded by the Fund or Boralex regarding the notice of termination.

RISK FACTORS AND UNCERTAINTIES

EFFECTS OF WEATHER

By the nature of its business, the Corporation's earnings are sensitive to weather variations from period to period. Variations in winter weather affect the demand for electrical heating requirements. Variations in summer weather affect the demand for electrical cooling requirements. These variations in demand translate into spot market price volatility, which affects a portion of the Corporation's revenues in the Northeastern United States.

HYDROLOGY

The amount of electricity generated by the Corporation's hydroelectric assets is dependent upon available water flows. Accordingly, revenues and cash flows may be affected by low and high water flows in the watersheds. There can be no assurance that the long-term historical water availability will remain unchanged or that no material hydrologic event will impact the hydrologic conditions that exist within the watershed. Annual deviations from the long-term average can be significant. The investment in the Fund is also exposed to this risk since the Fund owns nearly 50% of its production capacity in this sector.

FUEL SUPPLY

The operation of wood-residue or natural gas thermal power facilities requires that a fuel in the form of wood-residue or natural gas be provided. If there is any interruption in the supply or increase in price of wood-residue or natural gas for the Corporation's facilities, the ability of such facilities to generate electricity or to generate it in a profitable manner will be adversely affected. In addition, some of the alternative sources of wood-residue may benefit from increased competition for wood-residue and sell their wood-residue to other customers or may charge significantly higher prices for their wood-residue. The Corporation reduces this risk by establishing partnerships with suppliers and by seeking out alternatives to virgin residue as fuel, as well as by adopting storage strategies that will help to avoid purchasing during times when raw materials are scarce and prices are therefore high.

WIND

Wind is naturally variable. Therefore, the level of electricity production from a wind power generation facility will also be variable. A reduced or increased amount of wind at the location of one of the wind generation facilities over an extended period may reduce the production from such facility and may reduce the Corporation's revenues and profitability.

PLANT PERFORMANCE AND EQUIPMENT FAILURE

The ability of the facilities to generate the maximum amount of power is a key determinant of the Corporation's profitability. To the extent that plant equipment requires longer than forecast downtime for maintenance and repair, or suffers disruptions of power generation for other reasons, the Corporation's profitability may be adversely affected.

DEVELOPMENT, CONSTRUCTION AND DESIGN

On occasion, the Corporation participates in the construction and development of new power generating facilities. The nature of some of these expenditures is inherently speculative. Delays and cost over-runs may occur in completing the construction of projects. Even when complete, a facility may not operate as planned, or design and manufacturing flaws may occur, which could conceivably not be covered by warranty.

New power generating facilities have no operating history and may employ recently developed and technologically complex equipment. Moreover, power sales agreements entered into with a counterparty early in the development phase of a project may enable the counterparty to terminate the agreement, or to retain security posted as liquidated damages, if a project fails to achieve commercial operation or certain operating levels by specified dates or if the Corporation fails to make specified payments. As a result, a new facility may be unable to fund principal and interest payments under its financing obligations. A default under such a financing obligation could result in the Corporation losing its interest in a power generation facility.

DAM SAFETY

The occurrence of dam failures at any of the Corporation's hydroelectric generating stations could result in a loss of generating capacity, and repairing such failures could require the Corporation to incur significant expenditures of capital and other resources. Such failures could result in the Corporation being exposed to significant liability for damages. There can be no assurance that the Corporation's dam safety program will be able to detect potential dam failures prior to occurrence or eliminate all adverse consequences in the event of failure. Other safety regulations could change from time to time, potentially impacting the Corporation's costs and operations. Upgrading all dams to enable them to withstand all events could require the Corporation to incur significant expenditures of capital and other resources. The consequences of dam failures could have

a material adverse effect on the Corporation's business, operating results, financial condition or prospects.

POWER SALES AGREEMENTS

Obtaining new power sales agreements, which is a key component for the sustainability of profits, is a risk factor in the competitive environment faced by the Corporation. In several instances, the Corporation obtains new power sales agreements by submitting proposals in response to requests for proposals issued by large customers. There is no assurance that the Corporation will be selected as power supplier following requests for proposals in the future or that existing power sales agreements will be renewed or will be renewed upon equivalent terms and conditions upon the expiry of their term.

KEY EMPLOYEES

Holders of securities of the Corporation must rely upon the experience and expertise of several key employees of the Corporation. The Corporation's continued success is dependent upon its ability to attract and retain experienced management.

NATURAL DISASTERS; FORCE MAJEURE

The Corporation's plants and operations are exposed to potential damage or destruction resulting from environmental disasters (e.g. floods, high winds, fires, and earthquakes), equipment failure and the like. The occurrence of a significant event which disrupts the ability of the Corporation's generation assets to produce or sell power for an extended period, including events which preclude existing customers from purchasing electricity, could have a material adverse impact on the business of the Corporation. The Corporation's generation assets could be exposed to effects of severe weather conditions, natural disasters and potentially catastrophic events such as a major accident or incident at the Corporation's generation assets or a generating plant owned by a third party to which the transmission assets are connected. In certain cases, there is the potential that some events may not excuse the Corporation from performing its obligations pursuant to agreements with third parties. In addition, many of the Corporation's generation assets are located in remote areas which makes access for repair of damage difficult.

INSURANCE LIMITS

While the Corporation believes that its insurance coverage addresses all material insurable risks, provides coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities, and is subject to deductibles, limits, and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions, there can be no assurance that such insurance will continue to be offered on an economically affordable basis, nor that such insurance will cover all events which could give rise to a loss or claim involving the assets or operations of the Corporation.

COMMODITY PRICE

In the Northeastern United States, a large portion of the Corporation's generation is sold on the spot market or under short-term contracts and is accordingly subject to fluctuations in the price of electricity. Electricity prices vary depending on supply, demand and certain external factors. As a result, prices may fall too low for the power stations to yield an operating profit. The Corporation has implemented hedging strategies to reduce some of this risk.

PERFORMANCE OF COUNTERPARTIES

The Corporation sells the majority of its power to a limited number of customers. The Corporation is exposed to credit-related losses in the event of the non-performance by counterparties to power purchase agreements and financial instruments. Credit risks arise from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Corporation would incur a loss in replacing the defaulted transaction. The Corporation minimizes credit risk with counterparties to financial instruments and physical electricity and gas trades through the selection, monitoring and diversification of counterparties, use of standard trading contracts, collateral and other credit risk mitigation techniques. Further, the Corporation's power purchase agreements are almost exclusively with customers having longstanding credit histories or investment grade ratings. Where a customer does not have a public credit rating, the Corporation assesses the credit risk and may require financial guarantees.

INDUSTRY RISK AND COMPETITION

The Corporation currently operates in the power segment in Canada, the United States and France. These areas of operation are affected by competition ranging from large utilities to small independent power producers. The Corporation may compete with other companies with significantly greater financial and other resources than itself for power generation contracts as well as for the recruitment of qualified personnel. There is no assurance that the Corporation would be able to effectively compete with its competitors in the long term.

INDEBTEDNESS

The Corporation has a significant amount of indebtedness. The cash flows from several of the facilities are subordinated to senior debt. There is a risk that any particular loan may go into default if there is a breach in complying with the Corporation's covenants and obligations, which may result in the lender realizing on its security and, indirectly, causing the Corporation to lose its ownership or possession of such facility.

INTEREST RATE AND REFINANCING RISK

Interest rate fluctuations may be of concern to a capital-intensive industry such as the electric power generation business. The

Corporation is carrying long-term debt bearing interest at variable rates. As at December 31, 2007, approximately 17% of long-term debt issued, after taking into consideration financial swaps, bore interest at variable rates, as did the Corporation's bank loans and advances. A sharp increase in interest rates in the future could affect the liquid assets available for the Corporation's development projects. In addition, the ability of the Corporation to refinance debt when due is dependent on capital market conditions which can change from time to time.

ADDITIONAL FINANCING

To the extent that external sources of capital, including the issuance of additional securities of the Corporation, become limited or unavailable, the Corporation's ability to make the necessary capital investments to construct new plants or maintain its existing plants and remain in business will be impaired. There can be no assurance that additional financing will be available or, if available, will be on reasonable terms. If financing is obtained by issuing additional Class A Shares of the Corporation, investors may suffer dilution to their holdings of securities of the Corporation.

CURRENCY RISK

The Corporation is exposed to foreign exchange risk through certain operations that require foreign currency translations. More specifically, a significant portion of the fuel consumed by its Maine and New York wood-residue power stations is purchased in Canadian dollars. Apart from this item, most transactions take place in local currency.

With respect to currency translation for its foreign subsidiaries, only two of the Corporation's 21 power stations are located in Canada, whereas 11 are in the United States and nine in France. Since all subsidiaries are self-standing, the impact of exchange-rate fluctuations reflects on the Corporation's net investment in its subsidiaries and variances are reported in shareholders' equity, not the statement of earnings, until the Corporation repatriates the funds to Canada.

FOREIGN OPERATIONS

The Corporation currently has significant operations in the United States and France. Any changes in government policies could have a significant impact on the Corporation's business ventures in such jurisdictions. Risks of foreign operations include, but are not necessarily limited to, changes of laws affecting foreign ownership, government participation and regulation, taxation, royalties, duties, rates of exchange, inflation, exchange control, repatriation of earnings and civil unrest. There are no assurances that the economic and political conditions in the countries in which the Corporation operates and intends to operate will continue in such countries as they are at the present time. The effect of these factors cannot be accurately predicted.

HEALTH, SAFETY AND ENVIRONMENTAL RISKS

The ownership and operation of the Corporation's generation assets carry an inherent risk of liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination, potential penalties for contravention of health, safety and environmental laws, licenses, permits and other approvals, and potential civil liability. Compliance with health, safety and environmental laws (and any future changes) and the requirements of licenses, permits and other approvals will remain material to the Corporation's business.

REGULATORY AND POLITICAL

The Corporation's operations are also subject to changes in governmental regulatory requirements or the applicable governing statutes, including regulations related to the environment, unforeseen environmental effects, general economic conditions and other matters beyond the control of the Corporation.

The operation of power generating facilities is subject to extensive regulation by various government agencies at the municipal, provincial and federal level. There is always the risk of changes being made in government policies and laws, including changes to rates for income, capital and municipal taxes.

Operations that are not currently regulated may become subject to regulation. Because legal requirements are frequently changing and are subject to interpretation, the Corporation is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Some of the Corporation's operations are regulated by government agencies that exercise discretionary power conferred by statutes. Because the scope of such authority is uncertain and may be inconsistently applied, the Corporation is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. The failure of the Corporation to obtain or maintain all necessary licences, leases or permits, including renewals thereof or modifications thereto, may adversely affect the Corporation's ability to generate income.

The Corporation holds permits and licenses from various regulatory authorities for the construction and operation of its facilities. These licenses and permits are critical to the operation

of the Corporation's business. The majority of these permits and licenses are long term in nature, reflecting the anticipated useful life of the facilities. These permits and licenses are dependent upon the Corporation's compliance with the terms thereof. In addition, delays may occur in obtaining necessary government approvals required for future power projects.

LITIGATION

In the normal course of its operations, the Corporation may become involved in various legal actions, typically involving claims relating to personal injuries, property damage, property taxes, land rights and contract disputes. The Corporation maintains adequate provisions for its outstanding or pending claims. The final outcome with respect to outstanding, pending or future shares cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have an adverse effect on the financial position or results of operation of the Corporation in a particular quarter or fiscal year. The Corporation believes that it is not currently involved in any litigation, claims or proceedings in which an adverse outcome would have a material adverse effect on its consolidated financial position or results, but the Corporation may become party to litigation in the future which could adversely affect its business.

CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING POLICIES ADOPTED IN 2007

AMORTIZATION

In the first quarter of 2007, the Corporation changed its amortization method for its natural gas cogeneration power station and two wind power stations. These sites, which were the Corporation's first investments in these industries in France, were amortized over the term of their electricity sales contract. After conducting a technical analysis of the equipment, it became apparent that a method based on the lives of the various components would better reflect the use of future benefits related to these assets. The capital assets of these operating units were then separated into major components and amortized on a straight-line basis over their specific life expectancies. The lives of the components vary between five and 20 years. This change in accounting policy was applied retroactively with prior year restatements.

The impact of this change on the financial statements presented previously is as follows:

(in thousands of dollars)	AS AT DECEMBER 31, 2006		
	BALANCE BEFORE CHANGE	AMORTIZATION	RESTATED BALANCE
BALANCE SHEET			
Property, plant and equipment	282,489	(2,353)	280,136
Future income tax liabilities	21,564	(784)	20,780
Retained earnings	99,208	(1,559)	97,649
Cumulative translation adjustments	(28,057)	(10)	(28,067)

(in thousands of dollars, except per share amounts)	FOR THE YEAR ENDED DECEMBER 31, 2006		
	BALANCE BEFORE CHANGE	AMORTIZATION	RESTATED BALANCE
CONSOLIDATED STATEMENT OF EARNINGS			
Amortization ⁽¹⁾	20,880	449	21,329
Income tax recovery	(5,774)	(150)	(5,924)
Net earnings	15,020	(299)	14,721
Net earnings per Class A share—basic (in dollars)	0.50	(0.01)	0.49
Net earnings per Class A share—diluted (in dollars)	0.49	(0.01)	0.48

(1) The restated balance is before the reclassification of the amortization of monetization program expenses of \$153,000 in *Financing costs*. Refer to note 10 to the annual financial statements.

These restatements had no impact on the cash flows from operating, investing or financing activities.

COMPREHENSIVE INCOME, SHAREHOLDERS' EQUITY, FINANCIAL INSTRUMENTS AND HEDGES

On January, 1 2007, the Corporation adopted the new recommendations in Section 1530—“Comprehensive income”, Section 3251 “Equity”, Section 3855 “Financial instruments— Recognition and measurement” and Section 3865 “Hedges” of the Canadian Institute of Chartered Accountants (“CICA”) Handbook. These new standards were applied retroactively, but the financial statements from previous years were not restated.

Section 1530 “Comprehensive income” establishes the standards for disclosing and presenting comprehensive income and its components. Comprehensive income corresponds to the change in a company’s equity resulting from operations and events unrelated to shareholders. These operations particularly include the change in translation adjustment with respect to self-sustaining foreign operations, as well as unrealized gains and losses related to changes in the fair value of certain financial instruments.

Section 3251 “Equity” describes the standards for the presentation of equity and changes in equity. Due to the adoption of the above-mentioned Sections 3251 and 1530, the Corporation now includes information on comprehensive income and other comprehensive income in equity. On January 1, 2007, an amount of \$28.1 million, previously recorded as *Cumulative translation*

adjustments was reclassified under *Accumulated other comprehensive income*.

Section 3855 “Financial instruments— Recognition and measurement” establishes standards for recognizing and measuring financial assets, financial liabilities and derivatives. These standards stipulate the moment and the amount a financial instrument must be recognized on the balance sheet, as well as the presentation of gains and losses in the consolidated financial statements.

The Corporation carried out the following classifications:

- cash and cash equivalents and CO₂ quotas are classified as “Assets held for trading” and are valued at their fair value. Gains and losses resulting from the periodic re-valuation are recorded in net earnings;
- accounts receivable, restricted funds and other funds held in trust, as well as other investments are classified as “Loans and receivables.” They are recorded at cost, which corresponds to their fair value when initially recorded. Subsequent valuations are recorded at cost after amortization according to the effective interest rate method;
- accounts payable and accrued liabilities, other liabilities as well as long-term debt are classified as “Other liabilities.” They are initially valued at their fair value and subsequent are recorded at cost after amortization according to the effective interest rate method.

Section 3855 also provides guidelines for recording transaction costs incurred when issuing debt instruments. Transaction costs are now deducted from financial liabilities and amortized using the effective interest rate method over the expected life of the liability in question. After applying Section 3855, amortized financing costs of \$3.0 million as at January 1, 2007, previously recorded as *Other assets*, were reclassified and charged against *Long-term debt*. Monetization program implementation costs of \$5.7 million were also reclassified and charged against *Other liabilities*.

The Corporation selected January 1, 2003 as the transition date for embedded financial instruments.

Section 3865 "Hedges" specifies how hedge accounting should be applied. In accordance with its risk management strategy, the Corporation has elected to apply hedge accounting to its interest rate swaps and financial swaps for electricity as a cash flow hedge. These derivatives are valued at their fair value. Gains and losses resulting from the periodic re-valuation are recorded in comprehensive income if the hedge is deemed effective.

As at January 1, 2007, the application of these new standards resulted in a \$3.6 million reduction in accumulated other comprehensive income, a \$5.3 million increase of derivative financial instruments recorded in assets and a \$1.7 million increase in future income tax liabilities. The application of these new standards had no impact on the Corporation's cash flows.

ACCOUNTING CHANGES

In July 2006, CICA changed Section 1506 of the handbook, "Accounting changes", which applies to fiscal years beginning on or after January 2007. The revised section establishes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of this section had no impact on the Corporation's earnings, financial position or cash flows.

NEW ACCOUNTING STANDARDS FOR 2008

FINANCIAL INSTRUMENTS– DISCLOSURE AND PRESENTATION

In December 2006, the CICA published two new sections of the Handbook: Section 3862, "Financial instruments–Disclosures" and Section 3863, "Financial instruments–Presentation". These two sections replace Section 3861. They apply to fiscal years beginning on or after October 1, 2007. These sections contain new disclosure requirements, particularly in terms of documenting risks. The Corporation does not anticipate that the adoption of this section will have an impact on its earnings, financial position or cash flows.

CAPITAL DISCLOSURES

In December 2006, CICA published Section 1535 of the Handbook, "Capital disclosures". This new section defines capital disclosures requirements, such as: qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what it manages as capital, whether during the period it complied with any externally imposed capital requirements to which it is subject, and when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. This new section applies to fiscal years beginning on or after October 1, 2007. The Corporation does not anticipate that the adoption of this section will have an impact on its earnings, financial position or cash flows.

INVENTORIES

In June 2007, CICA published Section 3031, "Inventories". This new section defines inventory measurement and presentation requirements. This new section applies to fiscal years beginning on or after January 1, 2008. The Corporation does not anticipate that the adoption of this section will have an impact on its earnings, financial position or cash flows.

ADDITIONAL INFORMATION

Additional information concerning the Corporation, including its previous annual reports, annual information form, interim reports and press releases, are available on the SEDAR website (www.sedar.com).

Management's report

The consolidated financial statements and other financial information included in the Annual Report are the responsibility of, and have been prepared by, the management of Boralex Inc. within reasonable limits of materiality. To fulfill this responsibility, management maintains appropriate systems of internal control, policies, and procedures. These systems of internal control, policies and procedures help ensure that the Corporation's reporting practices and accounting and administrative procedures provide reasonable assurance that the financial information is relevant, reliable, and accurate and that assets are safeguarded and transactions are executed in accordance with proper authorization. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which are summarized in the consolidated financial statements. Where appropriate, these consolidated financial statements reflect estimates based on management's best judgment. Financial information presented elsewhere in this Annual Report is consistent, where applicable with that reported in the accompanying consolidated financial statements.

The consolidated financial statements have been reviewed by the Board of Directors and by its Audit Committee. The Audit Committee is comprised exclusively of independent directors and meets periodically during the year with the independent auditors. The auditors have full access to the Audit Committee and meet with the committee both with and without the presence of management.

PricewaterhouseCoopers LLP, the independent auditors, have audited the consolidated financial statements of Boralex Inc. The independent auditors' responsibility is to express a professional opinion on the fairness of the consolidated financial statements. The auditors' report outlines the scope of the audit and sets forth their opinion on the consolidated financial statements.



Patrick Lemaire
President and Chief Executive Officer



Jean-François Thibodeau
Vice-President and
Chief Financial Officer

Montréal, Canada
February 28, 2008


Auditors' report

To the shareholders of Boralex Inc.

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

We conducted our audits in accordance with Canadian generally accepted auditing standards. These 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.



Chartered Accountants
PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.

Montréal, Canada
February 28, 2008

Consolidated balance sheets

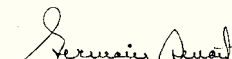
As at December 31 (in thousands of dollars)

	NOTE	2007	2006
			(RESTATED – NOTE 3)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		79,195	13,899
Accounts receivable		39,200	26,964
Future income taxes	16	2,394	–
Inventories		8,002	5,342
Prepaid expenses		2,171	2,776
		130,962	48,981
Investment	5 a	67,321	75,553
Property, plant and equipment	6	258,712	280,136
Electricity sales contracts	7	18,527	20,631
Future income taxes	16	–	6,249
Other assets	8	39,209	44,480
		514,731	476,030
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		20,869	20,005
Income taxes payable		1,481	1,786
Current portion of long-term debt	9	26,786	41,835
		49,136	63,626
Long-term debt	9	148,747	192,493
Future income taxes	16	23,430	20,780
Fair value of derivative financial instruments		1,400	–
Other liabilities	10	6,642	16,368
Non-controlling interests		607	730
		229,962	293,997
SHAREHOLDERS' EQUITY			
Capital stock	12	221,557	111,281
Contributed surplus	13	1,974	1,170
Retained earnings		115,669	97,649
Accumulated other comprehensive income	14	(54,431)	(28,067)
		284,769	182,033
		514,731	476,030

Approved by the Board of Directors,



Bernard Lemaire
Director



Germain Benoit
Director

Consolidated statements of earnings

For the years ended December 31 (in thousands of dollars, except per share amounts and number of shares)	NOTE	2007	2006
			(RESTATED— NOTE 3)
Revenue from energy sales		162,816	120,002
Renewable energy tax credits	10	12,033	10,622
Operating costs		112,184	95,380
		62,665	35,244
Share in earnings of the Fund		6,830	10,023
Management revenue from the Fund	5 b	5,601	5,457
Other revenue		2,503	4,776
		77,599	55,500
OTHER EXPENSES			
Management and operation of the Fund		4,510	4,249
Administration costs		12,336	8,429
		16,846	12,678
OPERATING EARNINGS BEFORE AMORTIZATION		60,753	42,822
Amortization		21,627	21,176
Financial instruments	11	(5,875)	—
Financing costs	15	15,069	12,681
		30,821	33,857
EARNINGS BEFORE INCOME TAXES		29,932	8,965
Income tax expense (recovery)	16	8,457	(5,924)
		21,475	14,889
Non-controlling interests		70	(168)
NET EARNINGS		21,545	14,721
Net earnings per Class A share (basic)		\$ 0.63	\$ 0.49
Net earnings per Class A share (diluted)		\$ 0.62	\$ 0.48
Weighted average number of Class A shares outstanding (basic)	12	34,403,033	30,033,885

Consolidated statements of retained earnings

For the years ended December 31 (in thousands of dollars)	NOTE	2007	2006
			(RESTATED— NOTE 3)
Balance—beginning of year, as previously reported		99,208	84,188
Change in accounting policy	3	(1,559)	(1,260)
Balance—beginning of year, restated		97,649	82,928
Share issuance expenses, net of related taxes		(3,525)	—
Net earnings for the year		21,545	14,721
Balance—end of year		115,669	97,649

Consolidated statements of comprehensive income

For the years ended December 31 (in thousands of dollars)	NOTE	2007	2006
Net earnings for the year		21,545	14,721
Other comprehensive income			
TRANSLATION ADJUSTMENTS			
Unrealized translation gains (losses) on translation of financial statements of self-sustaining foreign operations		(24,395)	2,898
Share of cumulative translation adjustments of the Fund		(2,670)	(77)
Taxes		519	(369)
CASH FLOW HEDGE			
Change in the fair value of financial instruments		2,828	—
Realized losses on hedging items recognized in net earnings		(1,959)	—
Termination of hedging relationships	11	(5,874)	—
Taxes		1,602	—
		(29,949)	2,452
Comprehensive income for the year		(8,404)	17,173

Consolidated statements of cash flows

For the years ended December 31 (in thousands of dollars)	NOTE	2007	2006
			(RESTATEd- NOTE 3)
OPERATING ACTIVITIES			
Net earnings		21,545	14,721
Distributions received from the Fund	5 a	12,391	12,392
Adjustments for non-cash items			
Financial instruments	11	(5,875)	-
Share in earnings of the Fund		(6,830)	(10,023)
Amortization of property, land and equipment		21,627	21,176
Amortization of deferred financing costs and monetization program expenses		2,795	628
Renewable energy tax credits		(4,460)	(9,870)
Future income taxes	16	8,348	(5,250)
Other		2,007	744
		51,548	24,518
Change in non-cash working capital balances	17	(16,491)	(10,713)
		35,057	13,805
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(22,478)	(19,201)
Change in debt servicing reserves		6,175	(5,905)
Business acquisitions	4	-	(6,749)
Development projects		(4,609)	(848)
Other		(2,595)	(1,045)
		(23,507)	(33,748)
FINANCING ACTIVITIES			
Bank loans and advances		-	(1,215)
Increase in long-term debt		151,437	69,629
Payments on long-term debt		(198,454)	(56,487)
Financing costs		(1,632)	(1,167)
Monetization program and related expenses	10	(593)	10,935
Net proceeds from share issuance		105,307	273
Other		(50)	-
		56,015	21,968
TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS		(2,269)	1,259
NET CHANGE IN CASH AND CASH EQUIVALENTS		65,296	3,284
CASH AND CASH EQUIVALENTS—BEGINNING OF YEAR		13,899	10,615
CASH AND CASH EQUIVALENTS—END OF YEAR		79,195	13,899
SUPPLEMENTAL INFORMATION			
CASH AND CASH EQUIVALENTS PAID FOR:			
Interests		11,522	12,028
Income taxes		1,065	720

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(Tabular amounts are in thousands of dollars, unless otherwise specified.)

Note 1.

Nature of operations and basis of consolidation

Boralex Inc. ("Boralex" or the "Corporation") operates mainly as a private producer of energy. As at December 31, 2007, the Corporation had interests in seven wind power stations (six in 2006), seven hydroelectric power stations (seven in 2006), six wood-residue thermal power stations (six in 2006) and one natural gas cogeneration power station (one in 2006) for a total capacity of 351 megawatts ("MW") (332.2 MW in 2006). The Corporation also manages ten power stations (ten in 2006) owned by Boralex Power Income Fund (the "Fund"), in which the Corporation holds an interest, and two hydroelectric power stations on behalf of an entity controlled by a director and officer of the Corporation.

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and variable interest entities for which it is the primary beneficiary. The investment in the Fund is recorded using the equity method.

(*Data relating to MW have not been audited by the external auditors.)

Note 2.

Significant accounting policies

USE OF ESTIMATES AND MEASUREMENT OF UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet dates, as well as the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates. These estimates are reviewed periodically and adjustments, as they become necessary, are recorded in the period in which they become known.

The key estimates used by the Corporation relate mainly to the assumptions used in the impairment tests of long-lived assets and the recoverability of renewable energy tax credits. The key assumptions are: the future price of electricity and its associated products, the price of other energy sources, particularly those of oil and natural gas, future costs of wood-residue procurement, and finally the remaining useful life of the energy producing assets, considering the maintenance planned over the period.

On a three-year horizon, there exists some liquidity in the electricity open market, making it possible to project the future realization price curve. Beyond three years, prices can be negotiated, but often at a significant discount considering a lack of liquidity on such a market. Therefore, the assumption made is that for years four and after, the price will vary according to inflation rates. Assumptions related to the other sources of energy are made using a similar method since there exists a correlation between their price and that of electricity.

With regard to wood-residue costs, this raw material is not part to an organized open market. Purchases are made based on specific agreements negotiated with each supplier. Most of the agreements are renewable on an annual basis, therefore the prices are subject to some volatility. In that context, the assumption for wood-residue costs is based on next year's contract prices, adjusted for the CPI in the remaining years of the forecast period.

Finally, the remaining useful life of the assets will vary with the amount of maintenance work realized each year. When the power stations are sufficiently well maintained, their useful life can be very long and limited mostly by changes in technology which could make their production method less competitive. Consequently, the forecasts consider sufficient maintenance expenses to ensure that the power stations' life will last, at a minimum, as long as the forecast period, namely 15 years.

Relating to its investment in the Fund, the Corporation plans to hold it on a long-term perspective and continue to receive distributions of its taxable earnings. Consequently, the income tax liabilities relating to the investment have been calculated using the income tax rate applicable to business income, which is higher than the rate applicable to capital gain that would apply in the event that Boralex sells this investment. These estimates could have a significant impact on the operating results and future financial position of the Corporation.

Note 2. Significant accounting policies (cont'd)

REVENUE RECOGNITION

The Corporation recognizes its energy revenue under the following policies:

REVENUE FROM ELECTRICITY AND STEAM

The Corporation recognizes revenue from energy sales when the energy generated is received by the customer and collection is considered probable.

MANAGEMENT REVENUE

Management revenue from the Fund and other revenue are recognized when the service is provided and collection is considered probable.

RENEWABLE ENERGY CERTIFICATES ("REC")

Revenue from RECs is recognized when earned, i.e. when the Corporation has met the quarterly statutory requirements and the value of the RECs can be determined based on sufficient fixed-price and firm sales agreements with unrelated parties.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses derivative financial instruments to manage its market risk with respect to the selling price of electricity, its interest rate and exchange rate risks. As a matter of policy, the Corporation does not hold these derivatives for trading or speculation. The Corporation documents the risk management objective and strategy for hedging transactions, as well as all relationships between its hedging instruments and the hedged items. This process involves associating specific balance sheet assets or liabilities, firm commitments or anticipated transactions with each derivative. The Corporation also determines whether the derivatives used for hedging are effective in achieving offsetting changes in the fair value or cash flows of the hedged items. Throughout the hedging relationship, the Corporation must have assurance that the relationships remain highly effective and consistent with its risk management strategy.

If a hedging item ceases to exist or to be effective and is not replaced as part of the documented hedging strategy, the gains and losses previously deferred are carried forward to be recognized with the corresponding gains and losses on the hedged item. If the hedged item ceases to exist, the gains and losses previously deferred as a result of the hedging relationship are recognized in the current period's statements of earnings.

Derivative financial instruments are recorded at their estimated fair values under *Fair value of derivative financial instruments* as assets or liabilities of the Corporation, depending on the favourable or unfavourable change in the fair value. The estimated fair value is determined using pricing models that take into account current market prices and contract prices for the underlying instruments, the time value of money and yield curves or future prices.

DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES

In accordance with hedge accounting, gains, losses, income, and expenses arising from the hedging item must be recognized in the same period as those arising from the hedged item. Changes in fair value are recorded under *Accumulated other comprehensive income* until the settlement date of the derivative instrument, except for the ineffective portion of the derivative financial instruments, which is immediately included in earnings under *Financial instruments*. Payments made or received with respect to derivative financial instruments used for hedging are included in *Revenue from energy sales* for electricity-related financial swaps and in *Financing costs* for interest rate swaps. For derivative financial instruments designated as hedges of future capital asset purchases, payments are recorded against the capital asset hedged.

DERIVATIVE FINANCIAL INSTRUMENTS NOT DESIGNATED AS HEDGES

For these derivative financial instruments, changes in fair value and the final settlement would be immediately included in the Corporation's earnings under *Financial instruments*. As at December 31, 2006 and 2007, all derivative financial instruments held by the Corporation were designated as hedging items.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand and bank balances. Cash equivalents include bankers' acceptances, deposit certificates guaranteed by banks or funds guaranteed by government bonds. These instruments must be readily convertible into known amounts of cash and initially mature within three months or less. These investments are recorded at cost plus accrued interest and their carrying value approximates their fair market value.

Note 2. Significant accounting policies (cont'd)

INVENTORIES

Inventories represent wood-residue and are valued at the lower of cost and replacement cost. Cost is determined using the average cost method.

INVESTMENT

The investment represents the Corporation's share in the Fund and is recorded using the equity method.

PROPERTY, PLANT AND EQUIPMENT, AND AMORTIZATION

Property, plant and equipment, comprised mainly of power stations, are recorded at cost, including interest incurred during the period of construction of new power stations or wind farms. Amortization begins on the date the assets are put into service using the following methods:

WIND POWER STATIONS

Amortization is calculated using the straight-line method over periods of approximately 18 years.

HYDROELECTRIC POWER STATIONS

Amortization of American power stations is calculated using the straight-line method over a period of approximately 40 years. Amortization of Québec power stations is calculated using the compound interest method at a rate of 3% over a similar period.

WOOD-RESIDUE THERMAL POWER STATIONS

Amortization is calculated using the production method based on electricity production. According to this method, the amortization expense recorded in earnings is based on actual production during the period in relation to anticipated long-term production. Assuming stable and continuous production, the amortization period of the equipment is approximately 20 years. Major recurring maintenance jobs are capitalized and amortized over their specific estimated life, which can vary from 5 to 10 years.

NATURAL GAS THERMAL POWER STATION

Amortization is calculated using the straight-line method over an average period of 15 years.

Replacement parts are valued at the lower of cost and market value, and are not amortized.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are tested for recoverability when particular events or changes in circumstances indicate that their book value might not be recoverable. Recoverability is measured by comparing the carrying value of assets with the estimated value of future cash flows directly associated with the use of these assets. Impaired assets are recorded at fair value, determined primarily by estimating the discounted future cash flows directly associated with their use and eventual disposal.

ELECTRICITY SALE CONTRACTS

The purchase costs of electricity sale contracts are amortized using the straight-line method over the remaining term of the contracts, ranging from 12 to 22 years.

OTHER ASSETS

NET INVESTMENT IN CAPITAL LEASES

The Corporation engaged in lease financing transactions in order to ensure a steady supply of wood-residue. Amounts receivable under these leases appear under *Other assets*. Repayments are based on a per-unit rate for the volume of raw material delivered to the Corporation's power stations by the leaseholders. In addition to capital repayments, the Corporation receives interest on amounts receivable; this interest income is recorded against *Financing costs* in the Statement of Earnings.

DEFERRED FINANCING COSTS

Deferred financing costs are amortized using the effective interest rate method over the expected life of the liability and are deducted against financial liabilities. This accounting policy was changed in 2007 (see Note 3).

RESTRICTED FUNDS

Restricted funds represent funds held in trust for the purpose of meeting the requirements of certain long-term debt agreements. The restricted funds, consisting of deposit certificates, are valued at the lower of cost and market value.

Note 2. Significant accounting policies (cont'd)

DEVELOPMENT PROJECTS

Project development costs include design and acquisition costs related to new projects. These costs are deferred until construction of the new power station begins, at which time they are included in the cost of the power station or recorded as intangible assets, as appropriate. The Corporation only defers costs for projects when it believes they are more likely than not of being completed. If this probability subsequently declines, the costs deferred to that date are expensed.

CO₂ QUOTA

The quota is recognized at its market value on the allocation date. The Corporation then records an asset and a liability for that same amount. The asset represents the allocated quota, while the liability represents the estimated cost of its consumption. There is no subsequent re-evaluation of the market value for either the asset or the liability. However, if estimated consumption exceeds the quota, the Corporation would recognize an additional liability based on market value at that date, which would affect the Corporation's results. On the other hand, if estimated consumption is less than the quota, the Corporation would be in a position to sell its excess quota. In that event, the Corporation must wait until the execution of a sale before it can reduce its assets and liabilities. Finally, if, subsequent to a sale, the Corporation determined that its consumption had increased and that it had insufficient residual quota, it would recognize an additional liability at market value at that date.

INCOME TAXES

The Corporation uses the liability method in accounting for income taxes. According to this method, future income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. The tax rate in effect when these differences will reverse is used to calculate future income taxes at the balance sheet date. Future income tax assets arising from losses carried forward and temporary differences are recognized when it is more likely than not that the assets will be realized.

FOREIGN CURRENCY TRANSLATION

FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses on translation of monetary assets and liabilities are included in the determination of net earnings for the year.

FOREIGN OPERATIONS

The Corporation's foreign operations are defined as self-sustaining. The assets and liabilities of these operations are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the year. Translation gains or losses are deferred and included in *Accumulated other comprehensive income*.

OTHER LIABILITIES

Other liabilities correspond to the balance of the Corporation's obligation relatively to the initial payment received upon implementing its U.S. renewable energy tax credits monetization program, net of monetization program expenses. This deferred revenue will be amortized to earnings as the credits are earned by the power stations in the program. See Note 10 to the consolidated financial statements for more details on the program.

Amortization of monetization program implementation expenses is calculated using the effective rate method over the term of the program, which is approximately three years.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Corporation uses the fair value method to record stock options issued to senior management and executives. According to this method, an amount is expensed based on the exercise conditions of the options awarded. Fair value is determined using the Black-Scholes option pricing model, which was designed to estimate the fair value of exchange traded options that have no restrictions as to vesting and are entirely transferable. Some of the outstanding options carry restrictions, but, in the Corporation's opinion, the Black-Scholes model provides an effective estimate of fair value in these cases. Any consideration paid by employees on the exercise of stock options is credited to *Capital stock*.

Expenses related to stock options are recorded under *Administration costs* and the cumulative value of unexercised options outstanding is included under *Retained earnings*.

Note 2. Significant accounting policies (cont'd)

PER SHARE AMOUNTS

Per share amounts are determined based on the weighted average number of Class A shares outstanding during the year. Diluted amounts per common share are calculated using the share redemption method to determine the dilutive effect of the stock options. For options that have a dilutive effect, i.e. when the average share price for the period is higher than the exercise price of the options, this method assumes that the options have been exercised at the beginning of the period and that the resulting proceeds have been used to buy back common shares of the Corporation at their average price during the period.

ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation is valued at its fair value in the period in which the legal obligation is incurred. A conditional asset retirement obligation is valued at its fair value when it can be reasonably estimated. The related costs are capitalized, which increases the value of the asset, and are depreciated over the asset's useful life. The obligation is discounted using a credit-adjusted risk-free rate.

The Corporation has no contractual asset retirement obligations. However, according to current regulations, the Corporation may be obliged to carry out certain work should it should it discontinue some of its activities. According to the regulations, lessees must leave property in the same condition as when they arrived. However, structures or buildings can normally be handed over to the lessor, without compensation, should it prove impossible to remove them. This is generally the case for hydroelectric facilities, whose presence modifies the ecosystem and economic life in surrounding areas. It is usually more beneficial for the environment, local residents and companies to keep the dam.

With respect to wind power stations, there is a French regulation that requires the owner to dismantle the facilities when deciding to discontinue operations. The dismantling costs are mostly related to the removal, transportation and disposal of the reinforced concrete bases that support the wind turbines. The estimated cost of this work varies from \$70,000 to \$130,000 per wind turbine. The current business plan does not anticipate that the Corporation will stop operating these sites.

Lastly, the Corporation has environmental obligations with respect to its wood-residue thermal power stations. In fact, if a power station were sold, the Corporation would be responsible for removing the piles of wood-residue and environmental protection membranes. The Corporation has determined that the wood-residue would be burned to produce electricity and that the additional cleaning costs would be approximately \$100,000 to \$150,000 per site. However, since this obligation only applies when a site is sold and that the resulting costs would be negligible in relation to the value of the other assets in this type of power station, the costs would likely be included in the transaction and the Corporation would not have to pay anything.

In short, no liability was recorded because the Corporation plans to use these assets for an indefinite period. For these capital assets, the information available is insufficient to determine a realistic schedule for future asset retirement. A liability will be recorded in the period in which the Corporation obtains sufficient information to establish such a schedule.

RENEWABLE ENERGY TAX CREDITS

In the second quarter of 2005, Boralex adopted the recommendations of Section 3805 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, entitled "Investment Tax Credits." This accounting standard was adopted because of a new US tax credit program under *American Jobs Creation Act*, in which a tax credit can be granted to companies if the process used to generate electricity meets the qualifying criteria. Boralex wood-residue thermal power stations meet these criteria; thus enabling the Corporation to take advantage of this tax benefit, which is based on the amount of electricity generated from the qualified source.

Section 3805 recommends that renewable energy tax credits attributed on the basis of incurred operating expenses should be recorded as a reduction of operating cost for the period in which the credits were earned, to the extent that there is a reasonable assurance that they will be recoverable during their lifetime.

COMPARATIVE FIGURES

Certain items of the prior year's consolidated financial statements have been reclassified to conform to the presentation adopted in 2007.

Note 3. Change in accounting policy and new accounting policies adopted in 2007 and 2008

AMORTIZATION

In the first quarter of 2007, the Corporation changed its amortization method for its natural gas cogeneration power station and two wind power stations. These sites, which were the Corporation's first investments in these industries in France, were amortized over the term of their electricity sales contract. After conducting a technical analysis of the equipment, it became apparent that a method based on the lives of the various components would better reflect the use of future benefits related to these assets. The capital assets of these operating units were then separated into major components and amortized on a straight-line basis over their specific life expectancies. The lives of the components vary between five and 20 years. This change in accounting policy was applied retroactively with prior year restatements.

The impact of this change on the financial statements presented previously is as follows:

	AS AT DECEMBER 31, 2006		
	BALANCE BEFORE CHANGE	AMORTIZATION	RESTATED BALANCE
BALANCE SHEET			
Property, plant and equipment	282,489	(2,353)	280,136
Future income tax liabilities	21,564	(784)	20,780
Retained earnings	99,208	(1,559)	97,649
Cumulative translation adjustments	(28,057)	(10)	(28 067)

	FOR THE YEAR ENDED DECEMBER 31, 2006		
	BALANCE BEFORE CHANGE	AMORTIZATION	RESTATED BALANCE
CONSOLIDATED STATEMENT OF EARNINGS			
Amortization ⁽¹⁾	20,880	449	21,329
Income taxes recovery	(5,774)	(150)	(5,924)
Net earnings	15,020	(299)	14,721
Net earnings per Class A share—basic (in dollars)	0.50	(0.01)	0.49
Net earnings per Class A share—diluted (in dollars)	0.49	(0.01)	0.48

(1) The restated balance is before the reclassification of the amortization of the monetization program expenses of \$153,000 in *Financing costs*. Refer to Note 10.

Restatements had no impact on cash flows related to operating, investing or financing activities.

COMPREHENSIVE INCOME, SHAREHOLDERS' EQUITY, FINANCIAL INSTRUMENTS AND HEDGES

On January 1, 2007, the Corporation adopted the new recommendations in Section 1530—“Comprehensive income”, Section 3251 “Equity”, Section 3855 “Financial instruments—Recognition and measurement” and Section 3865 “Hedges” of the Canadian Institute of Chartered Accountants (“CICA”) Handbook. These new standards were applied retroactively, but the financial statements from previous years were not restated.

Section 1530 “Comprehensive income” establishes the standards for disclosing and presenting comprehensive income and its components. Comprehensive income corresponds to the change in a company's equity resulting from operations and events unrelated to shareholders. These operations particularly include the change in translation adjustment with respect to self-sustaining foreign operations, as well as unrealized gains and losses related to changes in the fair value of certain financial instruments.

Note 3. Change in accounting policy and new accounting policies adopted in 2007 and 2008 (cont'd)

Section 3251 "Equity" describes the standards for the presentation of equity and changes in equity. Due to the adoption of the above-mentioned Sections 3251 and 1530, the Corporation now includes information on comprehensive income and other comprehensive income in equity. On January 1, 2007, an amount of \$28,067,000, previously recorded as *Cumulative translation adjustments* was reclassified under *Accumulated other comprehensive income*.

Section 3855 "Financial instruments—Recognition and measurement" establishes standards for recognizing and measuring financial assets, financial liabilities and derivatives. These standards stipulate the moment and the amount a financial instrument must be recognized on the balance sheet, as well as the presentation of gains and losses in the consolidated financial statements.

The Corporation carried out the following classifications:

- Cash and cash equivalents and CO₂ quotas are classified as "Assets held for trading" and are valued at their fair value. Gains and losses resulting from the periodic re-valuation are recorded in net earnings;
- Accounts receivable, restricted funds and other funds held in trust, as well as other investments are classified as "Loans and receivables." They are recorded at cost, which corresponds to their fair value when initially recorded. Subsequent valuations are recorded at cost after amortization according to the effective interest rate method;
- Accounts payable, accrued liabilities, other liabilities as well as long-term debt are classified as "Other liabilities." They are initially valued at their fair value and subsequent are recorded at cost after amortization according to the effective interest rate method.

Section 3855 also provides guidelines for recording transaction costs incurred when issuing debt instruments. Transaction costs are now deducted from financial liabilities and amortized using the effective interest rate method over the expected life of the liability in question. After applying Section 3855, amortized financing costs of \$3,011,000 as at January 1, 2007, previously recorded as *Other assets*, were reclassified and charged against *Long-term debt*. Monetization program implementation costs of \$5,673,000 were also reclassified and charged against *Other liabilities*.

The Corporation selected January 1, 2003 as the transition date for embedded financial instruments.

Section 3865 "Hedges" specifies how hedge accounting should be applied. In accordance with its risk management strategy, the Corporation has elected to apply hedge accounting to its interest rate swaps and financial swaps for electricity as a cash flow hedge. These derivatives are valued at their fair value. Gains and losses resulting from the periodic re-valuation are recorded in comprehensive income if the hedge is deemed effective.

As at January 1, 2007, the application of these new standards resulted in a \$3,585,000 reduction in accumulated other comprehensive income, a \$5,272,000 increase of derivative financial instruments recorded in assets and a \$1,687,000 increase in future income tax liabilities. The application of these new standards had no impact on the Corporation's cash flows.

ACCOUNTING CHANGES

In July 2006, CICA changed Section 1506 of the CICA Handbook, "Accounting changes", which applies to fiscal years beginning on or after January 2007. The revised section establishes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of this section had no impact on the Corporation's earnings, financial position or cash flows.

NEW ACCOUNTING STANDARDS IN 2008

In December 2006, the CICA published two new sections of the Handbook: Section 3862, "Financial instruments—Disclosures" and Section 3863, "Financial instruments—Presentation". These two sections replace Section 3861. They apply to fiscal years beginning on or after October 1, 2007. These sections contain new disclosure requirements, particularly in terms of documenting risks. The Corporation does not anticipate that the adoption of this section will have an impact on its earnings, financial position or cash flows.

In December 2006, CICA published Section 1535 of the Handbook, "Capital disclosures". This new section defines capital disclosures requirements, such as: qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what it manages as capital, whether during the period it complied with any externally imposed capital requirements to which it is subject, and when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. This new section applies to fiscal years beginning on or after October 1, 2007. The Corporation does not anticipate that the adoption of this section will have an impact on its earnings, financial position or cash flows.

In June 2007, CICA published Section 3031, "Inventories". This new section defines inventory measurement and presentation requirements. This new section applies to fiscal years beginning on or after January 1, 2008. The Corporation does not anticipate that the adoption of this section will have an impact on its earnings, financial position or cash flows.

Note 4. Business acquisitions

2006

On June 29, 2006, the Corporation repurchased minority interests of 5% of the Massif Central Project for a cash consideration of \$997,000 (€700,000). This amount has been added to the value of the electricity sales contracts acquired initially.

On July 31, 2006, the Corporation repurchased minority interests of 35% of the Avignonet-Lauragais Project for a cash consideration of \$2,165,000 (€1,500,000). This amount has been added to the value of the electricity sales contracts acquired initially.

On December 5, 2006, the Corporation acquired the assets of a wood-residue power station with an installed capacity of 18 MW located in Stacyville, Maine. The purchase price of \$3,587,000 (US\$3,142,000) was paid in cash.

	2006			
	WOOD RESIDUE STACYVILLE	MINORITY INTEREST MASSIF CENTRAL	MINORITY INTEREST AVIGNONET- LAURAGAIS	TOTAL
Working capital	266	-	-	266
Property, plant and equipment	3,056	-	-	3,056
Electricity sales contracts	265	997	2,165	3,427
Net assets acquired	3,587	997	2,165	6,749

Boralex accounted for these acquisitions under the purchase method. The accounts and earnings of these companies are consolidated into its consolidated financial statements from their acquisition date.

Note 5. Investment

The Fund is an income trust in which the Corporation holds a 23% interest as at December 31, 2007 and 2006.

a) The investment in the Fund consists of the following:

	2007	2006
Investment in units, at cost, net of unrecognized gain	95,401	95,401
Share in earnings	50,863	44,033
Gain on dilution	545	545
Share in distributions	i) (72,055)	(59,664)
Share in cumulative translation adjustments	(7,433)	(4,762)
	67,321	75,553

i) During the year, the Corporation received \$12,391,000 (\$12,392,000 in 2006) for its share of the distributions of the Fund.

b) In relation to the Fund:

i) Under the terms of a management agreement ending February 19, 2022 with renewable successive five-year terms, the Corporation has undertaken to provide operation, supervision, maintenance, security, management and administration services for eight power stations. These services cover all employee wages, salaries and benefits related to these facilities, as well as the use of the Corporation's centralized control system. The fee is indexed annually based on the Consumer Price Index for the preceding twelve months. For the year ended December 31, 2007, the management fee under this agreement was \$5,223,000 (\$5,165,000 for 2006);

ii) The Corporation has undertaken to provide, according to terms similar to those described in (i), the complete management of two hydroelectric power stations located in the State of New York (the "Adirondack facilities") and owned by the Fund. More specifically, the amounts payable under this agreement are limited to operating expenses and monthly compensation to the Corporation covering the employee wages, salaries and benefits related to the operation, supervision, maintenance, security, management and administration of the Adirondack facilities and of the overhead expenses thereof. Fees for this agreement were \$378,000 for the year ended December 31, 2007 (\$292,000 for 2006). This agreement will end in 2023 but is renewable for additional five-year terms at the option of the manager.

Note 5. Investment (cont'd)

c) Management revenue from the Fund was generated in the normal course of business and is related to the commitments described in b) above. Furthermore, as at December 31, 2007, accounts receivable included an amount of \$1,616,000 receivable from the Fund (\$1,872,000 in 2006), of which \$1,033,000 was in the form of distributions receivable (\$1,033,000 for 2006).

d) The table below contains financial information from the consolidated financial statements of the Fund at December 31, 2007 and 2006 and for the years ending on those dates:

	2007	2006
CONSOLIDATED BALANCE SHEETS		
Working capital, net	13,803	23,123
Intangible assets and goodwill	99,933	128,147
Property, plant and equipment and other long-term assets	376,068	411,377
Long-term liabilities	(153,209)	(125,616)
Total net assets	336,595	437,031

	2007	2006
CONSOLIDATED STATEMENTS OF EARNINGS		
Revenue	102,168	115,226
Operating earnings before amortization	55,241	70,875
Net earnings (loss)	(35,693)	33,966
CONSOLIDATED STATEMENTS OF CASH FLOWS		
Operating activities	46,266	57,618
Investing activities	(4,001)	(3,128)
Financing activities	(53,641)	(53,000)

With the adoption in 2007 of new tax rules that apply to public income trusts, the Fund recorded a future income tax expense of \$41,958,000. Since Boralex had already recorded future income taxes for its interest in the Fund, the expense did not have an impact on Boralex's share in the Fund. Furthermore, it should be noted that as at December 31, 2007, the Fund recorded an expense of \$13,997,000 for the amortization of a goodwill item. Due to the change in supply and demand for electricity in Québec, the Fund had to reposition its estimates regarding the renewal price of its contract with Hydro-Québec for its natural gas cogeneration power station.

For the year ended December 31, 2007, 74% of the Fund's revenue was realized in Canada and 26% in the United States (66% and 34% in 2006). As at December 31, 2007 and 2006, 72% of property, plant and equipment were located in Canada (68% in 2006) and 28% in the United States (32% in 2006).

Note 6. Property, plant and equipment

	2007		
	COST	ACCUMULATED AMORTIZATION	NET AMOUNT
Wind power stations	175,563	23,548	152,015
Hydroelectric power stations	12,617	2,588	10,029
Wood-residue thermal power stations	116,485	33,329	83,156
Natural gas thermal power station	15,047	6,109	8,938
Corporate and eliminations	7,137	2,563	4,574
	326,849	68,137	258,712

Note 6. Property, plant and equipment (cont'd)

	2006		
	COST	ACCUMULATED AMORTIZATION	(RESTATED - NOTE 3) NET AMOUNT
Wind power stations	170,503	14,489	156,014
Hydroelectric power stations	13,096	2,405	10,691
Wood-residue thermal power stations	128,022	30,103	97,919
Natural gas thermal power station	16,100	5,367	10,733
Corporate and eliminations	6,938	2,159	4,779
	334,659	54,523	280,136

Amortization of property, plant and equipment amounted to \$20,693,000 for the year ended December 31, 2007 (\$18,964,000 in 2006) including an amount of \$2,281,000 relating to capital leases (\$1,543,000 in 2006). Those amounts are presented as *Amortization*. Cost and accumulated amortization of assets under capital leases totalled \$32,156,000 and \$11,376,000 respectively as at December 31, 2007 (\$33,232,000 and \$6,987,000 as at December 31, 2006).

Capital assets include replacement parts for an amount of \$2,092,000 (\$2,632,000 in 2006) and wind power stations under construction for \$3,752,000 (\$9,474,000 in 2006). These capital assets are not amortized until they are commissioned.

In 2007, interests in the amount of \$371,000 were capitalized to the cost of capital assets constructed (\$420,000 in 2006).

Note 7. Electricity sales contracts

	2007	2006
Cost	21,373	22,935
Accumulated amortization	2,846	2,304
	18,527	20,631

Amortization of long-term electricity sales contracts amounted to \$842,000 for the year ended December 31, 2007 (\$1,698,000 for 2006) and is included in *Amortization*.

Note 8. Other assets

	NOTE	2007	2006
Renewable energy tax credits	a	17,573	20,231
Deferred financing costs		-	3,011
Monetization program expenses	a	-	5,673
Restricted funds and other funds held in trust	b	1,519	8,280
Net investments in capital leases	c	6,669	5,420
Fair value of derivative financial instruments		6,863	-
Deferred costs		519	355
CO ₂ quota		-	71
Development projects	d	5,988	1,360
Investments		78	79
		39,209	44,480

With the application of Section 3855, amortized financing costs of \$3,011,000 as at January 1, 2007, and monetization program expenses of \$5,673,000, previously recorded as *Other assets*, were respectively reclassified and charged against *Long-term debt* and *Other liabilities*.

Amortization of deferred financing costs was \$475,000 in 2006 and amortization of monetization program expenses was \$153,000.

Amortization of deferred costs was \$92,000 in 2007 (\$65,000 in 2006). This amount is recorded under *Amortization*. The remaining items are not subject to amortization.

Note 8. Other assets (cont'd)

Notes:

a) The renewable energy tax credits represent tax credits earned by the Corporation before it set up the monetization program (see Note 10) as well as tax credits attributable to power stations acquired subsequently. Tax credits earned will be used against future income taxes. Financial projections indicate that the amount recorded may be realized in the next 3 to 5 years. See Note 10 to these consolidated financial statements for more information about this transaction.

b) Under the financing agreements for the Massif Central and Plouguin projects, in 2006 the Corporation had established cash reserves for debt servicing. In both cases, the reserve account must always contain sufficient assets to cover debt servicing. As part of the refinancing on June 25, 2007, some of the reserves were released. Since then, the Corporation has a new master agreement that contains additional credits against which the Corporation can withdraw the amounts required should reserves become necessary to ensure debt servicing.

As at December 31, 2007, reserves for long-term debt servicing guaranteed financing in France and Canada. In France, reserves amounted to \$1,382,000 (€ 958,000) whereas in Canada they were \$137,000. These reserves represent from 3 to 6 months of debt servicing, depending on the project.

c) Capital leases are with American and Canadian suppliers. As at December 31, 2007, foreign currency receivables were respectively: US\$5,147,000 (\$5,086,000) and \$1,583,000.

d) Development projects primarily consist of one wind power project in Québec, one wind power project in Ontario and one solar power project in Spain.

Note 9. Long-term debt

Long-term debt includes the following:

	NOTE	MATURITY	RATE (1)	2007	2006
Revolving credit	a	2011	–	–	49,493
Term credit facility	b	2008	4.58	9,811	24,408
Master agreement—wind power projects	c	2017-2022	4.99	135,839	23,087
Senior and junior credit—wind power projects	c	–	–	–	98,195
Term loan—Nibas wind farm	d	2016	5.00	11,657	13,531
Term loan—Stratton power station	e	2010	7.98	3,455	5,006
Capital leases	f	2012-2015	5.70	14,943	18,600
Other debts				4,450	2,008
				180,155	234,328
Current portion				(26,786)	(41,835)
Deferred financing costs, net of accumulated amortization (Note 3)				(4,622)	–
				148,747	192,493

(1) Average weighted annual rates for 2007, adjusted to reflect the impact of interest rate swaps.

a) The revolving credit for an authorized amount of \$85,000,000, bearing interest at a variable rate based on Canada's prime rates or money market rates plus a margin, is guaranteed by Boralex investment in the Fund, based on the following formula: amounts advanced may not exceed 60% of the market value of the investment. If the market value of the investment were to drop below this limit, creditors would be entitled to demand repayment of a portion of the amounts advanced in order to re-establish the coverage ratio. As at December 31, 2007, no amount was used, but letters of credit for a total of \$11,930,000 (including the letter of credit discussed in b) were issued against this operating credit. Lastly, the market value of a unit was \$5.91 and the repayment threshold was \$1.45 (including all letters of credit in circulation issued on the operating credit). Toward the end of 2007, the revolving period was extended to January 27, 2011.

b) The term credit facility of €6,800,000 (€15,873,000 in 2006) bears interest at a variable rate based on EURIBOR rates plus a margin. To secure the credit, Boralex issued a letter of credit for \$9,811,000 in 2007 (\$25,269,000 in 2006) drawn from its revolving credit. As discussed below, the Corporation undertook a major refinancing of its master agreement in June 2007. The transaction enabled the Corporation to repay a portion of the term credit facility and thus reduce the letter of credit that serves as a security. The term credit facility currently matures on June 30, 2008, but the Corporation anticipates that it will be renewed.

Note 9. Long-term debt (cont'd)

c) In the second quarter of 2007, the Corporation refinanced its master agreement, as well as senior and junior credit for the Ally, Cham de Cham Longe, Plouguin and La Citadelle wind power stations. The refinancing was carried out under a new master agreement with a maximum senior credit facility of 250 million euros and a maximum junior credit facility of 15 million euros. The previous guaranteed credits, including the previous master financing, were repaid with amounts drawn from the new agreement. The creation of a new master agreement also enabled the Corporation to extend the term of drawings under the agreement until December 31, 2010.

Due to the increased diversification of the guarantee portfolio, the Corporation was able to increase its loan capacity, while reducing the amount of cash reserves required to guarantee debt servicing. As a result, the Corporation negotiated two new credit facilities to cover potential short-term working capital needs for debt servicing. These credit facilities are for \$7,260,000 (\$5,032,000 euros) and \$811,000 (562,000 euros) respectively.

Financing issued under the master agreement is secured by the projects' assets, however, the junior credit facility is subordinated to the senior one. The variable interest rate is based on the EURIBOR rate, plus a margin, but the Corporation used interest rate swaps to reduce its exposure to interest rate fluctuations as discussed below. Repayments are made on a quarterly basis.

As at December 31, 2007, the following funds were available under the master credit agreement:

(in thousands of euros)	CREDIT LIMITS	AMOUNTS DRAWN	AVAILABLE
Senior credit	250,000	87,100	162,900
Junior credit	15,000	7,050	7,950
	265,000	94,150	170,850

d) This loan bears interest at a fixed rate of 5%; payments are semi-annual. As at December 31, 2007, the balance was €8,079,000 (€8,800,000 in 2006). All assets of the Nibas wind farm were used to secure the loan.

e) This loan bears interest at a variable rate based on U.S. prime rates or money market rates, plus a margin. The loan, which matured in 2007 was extended for an additional three years until July 31, 2010 under the same terms and conditions with quarterly repayments. As at December 31, 2007, the balance was US\$3,496,000 (US\$4,296,000 in 2006). All assets of the Stratton power station were pledged as collateral.

f) Capital leases consist of capital lease agreements on assets in France. The balance of the leases was €10,357,000 as at December 31, 2007 (€12,096,000 in 2006). They bear interest at fixed and variable rates; repayments are quarterly. The net carrying value of associated capital assets was €14,403,000 (\$20,780,000) as at December 31, 2007 (€17,068,000 or \$26,245,000 in 2006).

Amortization of financing costs amounted to \$848,000 for the year ended December 31, 2007.

INTEREST RATE SWAPS

The revolving credit, term credit facility, master agreement, term loan for the Stratton power station, together with a portion of certain leases bear interest at a variable rate. To offset the interest rate risk, the Corporation has entered into interest rate swaps to fix interests on portions varying from 58% to 89% of the corresponding debt. These agreements involve the periodic exchange of interest payments without any exchange of the principal on which they are calculated. Under these agreements, the Corporation receives a variable amount based on the EURIBOR rate and pays fixed amounts based on rates of between 3.30% and 5.16%. Since the credit is drawn progressively and the loans are periodically repaid when sites are commissioned, the swaps have been structured to mirror the terms of the underlying credit arrangements and to always cover a significant portion of these arrangements. By using these instruments, the Corporation has reduced the proportion of its variable rate debt from 86% to 17%.

FINANCIAL RATIOS AND GUARANTEES

The long-term debt agreements include certain restrictions in the use of cash flows of the Corporation's subsidiaries. As well, certain financial ratios, such as debt service ratios, must meet designated levels on a quarterly, semi-annual or annual basis.

The senior and junior secured debt and certain other debts or interest rate swaps include requirements to establish and maintain reserve accounts to cover short-term debt service, equipment maintenance, and taxes at various times during the terms of the agreements. As at December 31, 2007, \$1,519,000 (\$8,280,000 in 2006) was kept in reserve accounts. These amounts are included in *Other assets* on the Corporation's consolidated balance sheet.

Note 9. Long-term debt (cont'd)

In addition to property, plant and equipment associated with capital leases and the investment in the Fund that secures revolving credit, the property, plant and equipment of the Stratton power station, one Canadian power station and the French power stations, with a net book value totaling \$167,790,000 as at December 31, 2007 (\$172,396,000 as at December 31, 2006), together with the related working capital, have been pledged as collateral.

MINIMUM FUTURE PAYMENTS

The estimated aggregate amount of repayments on long-term debt in each of the next five years is as follows:

2008	26,786
2009	15,041
2010	16,821
2011	13,293
2012	11,304

Note 10. Renewable energy tax credit monetization program

As at December 31, 2007, *Other liabilities* corresponded to the balance of the Corporation's obligation relatively to the initial payment received upon implementing its U.S. renewable energy tax credit monetization program for \$10,195,000 (US\$10,318,000) less monetization program expenses of \$3,553,000 (US\$3,596,000) for a net amount of \$6,642,000 (US\$6,722,000).

Amortization of monetization program expenses was \$1,947,000 in 2007 (\$153,000 in 2006).

DESCRIPTION OF THE TRANSACTION

In December 2006, the Corporation closed a transaction that allows it to immediately receive a cash portion of the value of the renewable energy tax credits to be earned by some of its wood-residue thermal power stations in the United States. The investor must be the legal owner of the power stations in order to take advantage of these credits. The transaction thus also included the transfer of power station ownership. However, the Corporation continues to consolidate these facilities under AcG-15, which defines the rules for consolidating variable interest entities. Although the Corporation no longer holds the majority voting rights for these operations, it is still the primary beneficiary since it will receive all of the cash flows generated by these facilities and is responsible for any operating losses. In addition, the Corporation continues to operate these facilities under a service agreement that allows it to define strategic and operating parameters. Furthermore, the Corporation can recover its investments in the power stations when the investor is in default relatively to the guarantees under which he is entitled to receive a payment for the tax credits claimed and the cash flows generated by the power stations.

On December 1, 2006, the Corporation received \$16,719,000 (US\$14,500,000), or about 50% of the value of the tax credits that will be generated between the transaction date and December 31, 2009, the date when the program ends. The investor will pay the balance of the credit amount as the credits are earned. If the Corporation cannot produce enough to cover the value of the amount initially paid by the investor, the contract requires the Corporation to repay that portion. The Corporation believes that future production will be sufficient to cover all its commitments.

The agreements state that by the end of the program, the Corporation's share of the profits generated by the power stations will automatically be adjusted to a minimum of 80% and that it will have call rights to buy back the assets at their market value at that date. Based on current estimates, the buyback obligation would cost about US\$5,000,000.

RECLASSIFICATION OF MONETIZATION PROGRAM ITEMS

The main objective of the monetization transaction was to strengthen the working capital of Boralex U.S. subsidiary to give it greater financial flexibility to pursue its current operations and investment projects. The transaction also enabled the subsidiary to benefit from the time value of money, and maximize the realizable value of tax credits.

Since this is actually a financing transaction, management deemed appropriate to modify the presentation of the transaction in the fourth quarter of 2007. Amounts previously presented under *Deferred revenue* were included in *Other liabilities*. In the statement of earnings, *Renewable energy tax credits* were presented net of the discount and financing costs, but it was deemed more appropriate to present the gross amount of renewable energy tax credits and include the discount and financing costs in *Financing costs*. These reclassifications had no impact on the Corporation's cash flows.

For 2006, the impact on earnings was negligible, since the transaction took place on December 1, 2006. As a result, the statement of earnings was not modified.

Note 11. Financial instruments

CREDIT RISK

The Corporation has only a limited number of customers, but their credit ratings are in general very high, given that in Québec and France the electricity market is limited to public monopolies. In the case of steam sales in France, where this energy is used in the papermaking process, the customer is in the private sector, which makes the credit risk higher. In the U.S., the market is more deregulated and a large proportion of the Corporation's business is done with regional producers' associations such as the NEPOOL for the New England market and the NYISO for the New York State market. Both organizations have very strong credit ratings. The Corporation can also reach private agreements directly with energy marketers. These customers are usually very large corporations with investment grade credit ratings. The Corporation regularly monitors the financial condition of these customers.

The Corporation's counterparties for derivative financial instruments are also large corporations. Before entering into a derivative transaction, the Corporation analyzes the counterparty's credit rating and assesses the overall risk based on the counterparty's weight within the Corporation's portfolio. Should a significant credit rating downgrade or overly heavy weighting make this analysis unfavourable, the transaction is not completed. Furthermore, if a company does not have a public credit rating, the Corporation assesses the risk and may require financial guarantees.

The Corporation is also exposed to a credit risk with respect to its direct financing lease contracts. To reduce this risk, the Corporation regularly evaluates supplier performance to see if any measures are required. The Corporation also visits the woodchip production sites from time to time to check the condition of equipment. If a supplier's credit were to become doubtful and an acceptable plan of action could not be arranged, the Corporation would have access to the underlying assets, which could then be transferred to another supplier with a better credit rating. In such a case, the Corporation would re-measure the assets based on the lower of the book value or fair market value.

INTEREST RATE RISK

The Corporation carries long-term debts bearing interest at variable rates. As at December 31, 2007, approximately 86% of long-term debt issued bears interest at variable rates, as do the Corporation's bank loans and advances. A sharp increase in interest rates in the future could affect the liquid assets available for the Corporation's development projects. However, as discussed in Note 9, since the Corporation uses interest rate swaps, its exposure to interest rate fluctuations is reduced to only 17% of total debt. As at December 31, 2007, the notional balance of these swaps was \$122,663,000 (€85,017,000) and their favourable fair value was \$4,637,000 (€3,214,000).

As a result of the refinancing completed on June 25, 2007, the Corporation had to discontinue the hedging relationship that had been established for certain interest rate swaps, which were eligible for an effectiveness test exemption, since the key conditions associated with them were identical to those of the hedged item. These swaps were re-designated as hedges for new debts, because it was mathematically proven that they are highly effective. Their favourable fair value was \$5,874,000 (€4,086,000) as at June 25, 2007 and \$6,243,000 (€4,346,000) on the designation date.

The Corporation does not plan to sell these instruments, since they were entered into in order to reduce the Corporation's risk related to interest rate fluctuations. Therefore, the fact that the fair value is favourable only indicates that forward interest rates have increased; it does not reflect on the effectiveness of the instrument as part of the Corporation's risk management strategy.

FOREIGN EXCHANGE RISK

The Corporation is exposed to a foreign exchange risk relating to certain transactions carried out in foreign currencies. Specifically, a proportion of the raw materials used in the Corporation's wood-residue power stations in the United States are purchased with Canadian dollars. The majority of other operating, investing and financing transactions are carried out in the power stations' local currencies.

For its wind power project in Ontario, the Corporation committed to purchase German wind turbines. As a result, a large part of the purchase price is denominated in euros. Since the project is in Canada and revenues will be in Canadian dollars, the Corporation protected itself from euro fluctuations against the Canadian dollar by using a series of series of tunnel options that allow it to purchase euros in a corridor with a ceiling price of 1.4180 and floor price of 1.3695. A characteristic of the floor price is that it increases to the ceiling price if the Canadian dollar-euro exchange rate goes below 1.3695. This threshold was reached on October 31, 2007. Since the floor and ceiling prices will henceforth be the same amount, the options behave essentially the same as a foreign currency forward contract. As at December 31, 2007, the notional value of these options was \$48,520,000 (€33,629,000) and the favourable fair value was \$869,000.

Note 11. Financial instruments (cont'd)

MARKET RISK

The power stations located in France, Canada, as well as Middle Falls, Ashland and Fort Fairfield located in the United States have long-term electricity sales contracts. The other U.S. power stations sell their electricity at prevailing market prices. Market prices are affected by many factors, including weather conditions, the price of power from other sources and the cost of the raw materials needed to generate electricity. To reduce the effects of market price fluctuations, the Corporation has implemented an electricity price hedging strategy to set a fixed price for part of its production under various agreements, some of which involve the physical delivery of electricity.

For pricing reasons, it can be advantageous under certain conditions to use financial swaps that exchange the variable market price for a fixed price agreed upon with a counterparty. As at December 31, 2007, the Corporation had entered into three electricity swaps for total deliveries of 177,744 MWh over periods of 9 to 15 months. All financial electricity swaps as at December 31, 2007 were designated as hedges associated with future electricity deliveries and their unfavourable fair value amounted to \$43,000. These contracts qualify for hedge accounting.

FAIR VALUE

As at December 31, the carrying value and estimated fair value of long-term debts were:

	2007	2006
Carrying value	180,155	234,328
Fair value	178,894	233,423

Note 12.
Capital stock

The Corporation's capital stock is composed of an unlimited number of Class A common shares.

The transactions relating to capital stock for the years ended December 31:

	NOTE	2007		2006	
		NUMBER OF SHARES (IN THOUSANDS)	AMOUNT	NUMBER OF SHARES (IN THOUSANDS)	AMOUNT
Balance—beginning of year		30,050	111,281	29,989	111,008
Share issuance	a	7,333	110,000	—	—
Options exercised	c	72	276	61	273
Balance—end of year		37,455	221,557	30,050	111,281

- a) On June 7, 2007, the Corporation closed the public offering of 7,333,334 Class A shares for gross proceeds of \$110,000,000, including the over-allotment option exercised by underwriters. The offering generated total net proceeds of \$105,300,000.
- b) A normal course issuer bid program, approved by the Toronto Stock Exchange, to redeem up to 1,500,000 Class A shares was in force from June 14, 2006 to June 13, 2007, representing approximately 5% of the Class A shares issued and outstanding when it was approved on June 14, 2006. This redemption program was in force until June 13, 2007. No redemption was made to date under the program.
- c) The Corporation has a stock option plan for the benefit of directors, senior management and certain key employees under which 2,500,000 Class A shares have been reserved for issuance. The exercise price equals the market value on the day preceding the date the options were granted. The options granted prior to May 19, 2004 may be exercised over a period of four years at 25% per year beginning at the grant date, with no restrictions. Options granted on or after May 19, 2004, may be exercised at 25% per year beginning the year after they are granted. Furthermore, these options cannot be exercised unless the market value of the stock is higher, for a minimum period, than the book value when the options were granted. In some cases, the right to exercise the options is linked to certain performance criteria.

Note 12. Capital stock (cont'd)

The stock options are as follows for the years ended December 31:

	2007		2006	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding—beginning of year	1,176,106	6.37	946,115	5.23
Granted	151,745	13.30	297,664	9.60
Exercised	(71,705)	3.83	(60,188)	4.55
Cancelled	—	—	(7,485)	5.60
Outstanding—end of year	1,256,146	7.35	1,176,106	6.37
Options exercisable—beginning of year	680,131	5.65	565,576	4.84

The following options were outstanding as at December 31, 2007:

GRANTED IN	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE		
	NUMBER OF OPTIONS	EXERCISE PRICE	NUMBER OF OPTIONS	EXERCISE PRICE	YEAR OF MATURITY
2001	54,270	6.00	54,270	6.00	2011
2002	38,021	8.63	38,021	8.63	2012
2003	52,000	3.75	52,000	3.75	2013
2004	326,035	4.15	295,711	4.12	2014
2005	337,026	6.41	166,328	6.41	2015
2006	297,049	9.60	73,801	9.60	2016
2007	151,745	13.30	—	—	2017
	1,256,146	7.35	680,131	5.65	

Diluted per share amounts were calculated as follows:

	2007	2006
Weighted average number of shares outstanding	34,403,033	30,033,885
Dilutive effect of stock purchase options	617,069	369,004
Weighted and diluted average number of shares outstanding	35,020,102	30,402,889
Net earnings	21,545	14,721
Net earnings per share (basic) (\$)	0.63	0.49
Net earnings per share (diluted) (\$)	0.62	0.48

The table below shows stock that could dilute basic earnings per share in the future but were not taken into account in the calculation of the diluted earnings per share due to their anti-dilutive effect:

	2007	2006
Number of anti-dilutive options	—	335,685

Note 13. Contributed surplus

The Corporation applies the fair value method of accounting for options granted to officers and management. These amounts are recorded as administration costs and in retained earnings. The following table shows the change in the account:

(in thousands of dollars)	2007	2006
Balance—beginning of year	1,170	678
Fair value of options recorded during the year	804	492
Balance—end of year	1,974	1,170

The following assumptions were used to estimate the fair value, at the date of grant, of the options issued to officers and employees in the years ended December 31:

	2007	2006
Risk-free interest rate	4.16 %	4.40 %
Expected annual dividend	0.00 %	0.00 %
Expected life of options	7 years	7 years
Expected volatility	37 %	44 %
Weighted average fair value per option	\$5.99	\$5.66

Note 14. Accumulated other comprehensive income

	2007	2006
Cumulative translation adjustments, as previously reported	(28,057)	(30,663)
Impact of the change in amortization method	(10)	144
Restated balance	(28,067)	(30,519)
Cumulative impact of accounting changes related to financial instruments as January 1, 2007	3,585	—
Other comprehensive income for the period	(29,949)	2,452
Balance—end of year	(54,431)	(28,067)

Note 15. Financing costs

	NOTE	2007	2006
Interest on long-term debt, net of the impact of interest rate swaps	a	11,857	12,886
Interest income		(1,797)	(466)
Amortization of financing costs		848	475
Amortization of monetization program expenses		1,947	153
Financing costs related to renewable energy tax credits		2,143	—
Other interest and banking fees		442	53
		15,440	13,101
Interest capitalized to power stations under development		(371)	(420)
		15,069	12,681

a) Interest expense on the direct financing lease contracts was \$904,000 in 2007 (\$1,027,000 in 2006).

Note 16. Income taxes

a) The provision for income taxes is as follows:

	2007	2006
		(RESTATEd - NOTE 3)
Income tax recovery		
Current	109	(674)
Future	8,348	(5,250)
	8,457	(5,924)
Earnings before income taxes	29,932	8,965
Renewable energy tax credits included in pre-tax earnings *	(229)	(9,594)
	29,703	(629)
Combined basic Canadian and Québec income tax rate (%)	32.02	32.02
Income tax expense (recovery) at statutory rate	9,511	(201)
Increase (decrease) in income taxes arising from the following:		
Change in statutory income tax rates	(2,071)	(2,254)
Non-taxable items	(594)	(1,527)
Difference in foreign operations' statutory income tax rates	2,011	(435)
Reassessment of current and future income tax assets and liabilities	(486)	(1,698)
Other	86	191
	8,457	(5,924)

* For 2007, includes only renewable energy tax credits earned outside the monetization program.

b) Future income taxes include the following items:

	2007	2006
		(RESTATEd - NOTE 3)
Tax benefit arising from losses carried forward	46,718	50,981
Deferred costs	(4,193)	(3,898)
Provisions	231	249
Investment	(17,633)	(21,710)
Property, plant and equipment	(49,332)	(47,357)
Other liabilities	4,091	6,491
Financial instruments	(1,748)	-
Other	830	713
Future income taxes	(21,036)	(14,531)
Future income tax assets	2,394	6,249
Future income tax liabilities	(23,430)	(20,780)
	(21,036)	(14,531)

c) The Corporation and its subsidiaries, particularly its French subsidiaries, have accumulated losses for income tax purposes amounting to approximately \$133,214,000, which may be carried forward to reduce taxable income in future years. With the exception of capital losses totaling \$1,404,000, the future tax benefit arising from these losses has been recognized in the accounts. These unused losses for income tax purposes may be claimed in future years, expiring as follows:

2010	2014	2024	2026	2027	UNLIMITED	TOTAL
1,308	5,088	6,579	4,181	5,322	110,736	133,214

Note 16. Income taxes (cont'd)

d) Renewable energy tax credits are allocated under the U.S. federal tax regime. With respect to Boralex power stations, this program is in force for a five-year period starting January 1, 2005. Tax credits are granted based on the power stations' real production. While this credit is non-refundable, it can be carried forward for the next 20 taxation years. In 2006, a monetization program was set up so that Boralex could take immediate advantage of the value of the tax credit. For details of the program, see Note 10.

Note 17. Changes in non-cash working capital balances

	2007	2006
Decrease (increase) in:		
Accounts receivable	(15,940)	45
Inventories	(3,536)	124
Prepaid expenses	287	(678)
Increase (decrease) in:		
Accounts payable and accrued liabilities	2,902	(9,165)
Income taxes	(204)	(1,039)
	(16,491)	(10,713)

Note 18. Segmented information

The Corporation's power stations are grouped under four distinct segments: wind power, hydroelectric power, wood-residue thermal power and natural gas thermal power, and are engaged mainly in the production of energy. The classification of these segments is based on the different cost structures relating to each type of power station. The accounting policies that apply to the individual segments are as described in Note 2.

The Corporation analyzes the performance of its operating segments based on their earnings before interest, taxes, depreciation and amortization ("EBITDA"). EBITDA is not a measure of performance under Canadian generally accepted accounting principles; however, management uses this performance measure for assessing the operating performance of its reportable segments. Earnings for each segment are presented on the same basis as those of the Corporation.

The following table reconciles EBITDA with net earnings:

	2007	2006
Net earnings	21,545	14,721
Non-controlling interests	(70)	168
Income tax expense (recovery)	8,457	(5,924)
Financing costs	15,069	12,681
Financial instruments	(5,875)	-
Amortization	21,627	21,176
EBITDA	60,753	42,822

Revenue is allocated to the different countries based on the location of customers. In 2007, the Corporation had four customers (three customers in 2006) accounting for more than 10% of its revenue. The tables below show the respective percentage of consolidated revenue from each customer, as well as the segments in which they operate.

2007			2006		
% SALES DUE TO ONE CLIENT	SEGMENTS		% SALES DUE TO ONE CLIENT	SEGMENTS	
30	Wood-residue		30	Wood-residue	
20	Wind power and natural grass		24	Wind power and natural grass	
11	Wood-residue		15	Hydroelectricity and wood-residue	
10	Hydroelectricity and wood-residue				

Note 18. Segmented information (cont'd)

INFORMATION BY OPERATING SEGMENT

	2007	2006	2007	2006
	POWER GENERATION (MWH)			
	(UNAUDITED)	(UNAUDITED)		REVENUE
Wind power stations	208,710	189,964	27,210	23,174
Hydroelectric power stations	106,762	138,518	9,137	10,939
Wood-residue thermal power stations	1,190,265	1,010,206	111,860	71,126
Natural gas thermal power station	38,421	38,365	14,609	14,763
	1,544,158	1,377,053	162,816	120,002
		EBITDA		PURCHASE OF PROPERTY, PLANT AND EQUIPMENT
Wind power stations	22,833	19,766	16,644	9,688
Hydroelectric power stations	5,424	7,481	1,172	600
Wood-residue thermal power stations	33,017	5,586	4,233	8,671
Natural gas thermal power station	2,271	5,405	25	24
Corporate and eliminations	(2,792)	4,584	404	218
	60,753	42,822	22,478	19,201

As at December 31

	2007	2006	2007	2006
	(RESTATED - NOTE 3)		(RESTATED - NOTE 3)	
		TOTAL ASSETS		PROPERTY, PLANT AND EQUIPMENT
Wind power stations	196,816	196,102	152,015	156,014
Hydroelectric power stations	12,434	34,284	10,029	10,691
Wood-residue thermal power stations	130,715	147,099	83,156	97,919
Natural gas thermal power station	16,132	20,476	8,938	10,733
Corporate and eliminations	158,634	78,069	4,574	4,779
	514,731	476,030	258,712	280,136

INFORMATION BY GEOGRAPHIC SEGMENT

	2007	2006	2007	2006
	POWER GENERATION (MWH)			
	(UNAUDITED)	(UNAUDITED)		REVENUE
United States	1,283,738	1,133,208	120,096	81,044
France	247,131	228,329	41,819	37,938
Canada	13,289	15,516	901	1,020
	1,544,158	1,377,053	162,816	120,002
		EBITDA		PURCHASE OF PROPERTY, PLANT AND EQUIPMENT
United States	37,666	12,651	5,133	9,251
France	25,108	24,981	16,718	9,767
Canada	(2,021)	5,190	627	183
	60,753	42,822	22,478	19,201

As at December 31

	2007	2006	2007	2006
	(RESTATED - NOTE 3)		(RESTATED - NOTE 3)	
		TOTAL ASSETS		PROPERTY, PLANT AND EQUIPMENT
United States	181,363	198,394	90,220	105,663
France	215,954	213,404	161,216	167,033
Canada	117,414	64,232	7,276	7,440
	514,731	476,030	258,712	280,136

Note 19. Related-party transactions

In addition to the transactions with the Fund (see note 5), the Corporation entered into the following transactions with related parties:

	2007	2006
Company (and its subsidiaries) having significant influence on the Corporation		
Revenue from energy sales	8,468	7,859
Operating costs	1,292	1,129
Purchase of property, plant and equipment	53	64
Entity controlled by a director and officer of the Corporation		
Other revenue	391	468
Interest income	48	24

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

The balance sheets as at December 31, 2007 and 2006 included the following balances with related parties:

	2007	2006
Company (and its subsidiaries) having significant influence on the Corporation		
Accounts receivable	1,944	2,134
Accounts payable and accrued liabilities	1,420	1,856
Entity controlled by a director and officer of the Corporation		
Accounts receivable	864	478

Note 20. Commitments and contingencies

In addition to the commitments related to the Fund (Note 5 b), the Corporation is committed to the following:

- a) Under a long-term contract expiring in 2027, the Corporation is committed to selling 100% of its electricity production from a hydroelectric power station located in the United States. On January 1, 2007, the Corporation renewed its power sales agreement for an additional term of 26 months with respect to two of its wood-residue thermal power stations. These contracts expire on February 28, 2009. Lastly, in Canada and France the Corporation is committed to selling 100% of its electricity and steam production under long-term contracts expiring as follows:

SOURCE	PRODUCTION TYPE	EXPIRY
Canada	Electricity	2010 and 2021
France	Electricity	Between 2013 and 2022
France	Steam	2022

Note 20. Commitments and contingencies (cont'd)

- b) To operate the Middle Falls power station in the United States, the Corporation leases the land where the facilities are situated from Niagara Mohawk Power Corporation under a lease that runs until 2027. Until 2013, payment is a fixed amount that is indexed at 3% per year. In 2007, the rent was \$352,000 (US\$328,000) (\$361,000 and US\$318,300 in 2006) and will be indexed at 3% per year until 2013. As of 2014, the rent will be variable at 30% of the power station's gross revenue.
- c) The Corporation is committed under forward sales contracts to sell the RECs earned by its U.S. power stations that have qualified as a renewable energy producer in Connecticut. As at December 31, 2007, the balance of these commitments totaled about \$51,400,000 (US\$52,000,000) for periods between January 2008 and December 2012.
- d) Under the supply agreements for its wood-residue power stations, the Corporation has undertaken to receive deliveries of certain minimum quantities. Based on production forecasts, the Corporation will purchase quantities greater than the contract minimums.
- e) Over the years, the Corporation has sold portions of its enterprises, including electrical power stations to the Boralex Power Income Fund. Under the agreements with respect to these sales, the Corporation could be required to indemnify the purchaser for liabilities arising from events prior to the sale, whether in connection with labour, tax, environmental, judicial or other matters, or arising from representations made by the Corporation. Indemnification guarantees of this type extend mainly over periods of less than 10 years. The maximum amount associated with these guarantees may not exceed the proceeds from the sales in the amount of \$382,300,000. At the time of writing, the Corporation deems that it has no liabilities under these guarantees.
- f) With respect to the wind power projects, the Corporation signed a turnkey maintenance contract with GE Wind Energy and Enercon. The initial contract period is five years, with anticipated annual expenditures of about €800,000.
- g) With respect to the wind power projects in Ontario (Canada), the Corporation signed an equipment purchase agreement. The total cost of the commitment is \$56,200,000, or €37,400,000 plus \$2,200,000. Disbursements will take place in 2008. The euro amount payable was covered by foreign currency options, as discussed in Note 11.
- h) After the Fund received a notice of termination of service contract (the "Notice") for the operation and maintenance of the Dolbeau power station from Bowater, the Fund sent Bowater a notice to arbitrate in order to submit the two parties' disputes to arbitration. At the same time and in accordance with the service contract, the Fund applied to Superior Court of Québec for an injunction to have the effect of the Notice suspended for the duration of the arbitration process. On January 22, 2008, the Superior Court allowed the Fund's injunction and ordered Bowater to fulfill its obligations under the service contract until the arbitrators made their final decision. Furthermore, on the date hereof, the arbitration court was formed and the parties are in the process of finalizing their respective cases. On February 12, 2008, Bowater filed a petition for permission to appeal the decision of the injunction judgment.

In one of its notices to the Fund, Bowater claimed damages of \$8,300,000. The Fund considers that it has diligently fulfilled its obligations to Bowater, that the unilateral termination of contract is unfounded and that the contract is valid. To that end, the Fund intends to use all recourses available to defend and vigorously assert its rights. Given all the facts surrounding this case, the Fund considers it impossible to determine if there is a potential loss and if so, for what amount. Consequently, no provision was recorded by the Fund or Boralex regarding the notice of termination.

Note 21. Subsequent event

On February 22, 2008, the Fund announced that it was reducing its distributions to \$0.70 per trust unit on an annualized basis. This will result in reduced annual cash flows for the Corporation of \$2,400,000, net of taxes.

Board of Directors

Bernard Lemaire⁽¹⁾
Executive Chairman
of the Board
Boralex Inc.
Chairman of the Board
Cascades Inc.

Patrick Lemaire^{(1) (3)}
President and
Chief Executive Officer
Boralex Inc.

Germain Benoit^{(2) (4)}
President
Capital Benoit Inc.

Allan Hogg⁽¹⁾
Director, Finance
and Treasurer
Cascades Inc.

Edward H. Kernaghan⁽⁴⁾
President
Principia Research Inc.
Vice-President
Kernaghan Securities Ltd
and Kernwood Ltd

Richard Lemaire⁽³⁾
President
Séchoirs Kingsey Falls Inc.

Yves Rheault⁽⁵⁾
Administrator of Corporations
and Consultant

Michelle Samson-Doel^{(2) (5)}
President of
Samson-Doel Group Ltd.,
Vice-Chairman of Gestion
Groupe Samson Inc. and
Administrator of Corporations

Pierre Seccareccia^{(2) (4) (6)}
Administrator of Corporations

Gilles Shooner⁽³⁾
Environmental Consultant

- (1) Member of the
Administrative Committee
(2) Member of the Audit Committee
(3) Member of the Environmental,
Health and Safety Committee
(4) Member of the Corporate
Governance Committee
(5) Member of the Nomination and
Remuneration Committee

Management

Bernard Lemaire
Executive Chairman
of the Board

Patrick Lemaire
President and
Chief Executive Officer

Jean-François Thibodeau
Vice-President and
Chief Financial Officer

Claude Audet
Vice-President and
Chief Operating Officer,
Biomass

Sylvain Aird
General Counsel
and Corporate Secretary

Denis Aubut
General Manager,
Operations

Patrick Decostre
General Manager,
Boralex S.A.S., France

Mario Dugas
General Manager,
Wood Thermal Division Canada
and Fuel Procurement

Hugues Girardin
General Manager,
Development

Guy D'Aoust
Financial and
Treasury Director

Nathan Hebel
Manager, Energy
Trading

Judy Kerwin
Director,
Human Resources

Mylène Masse
Director,
Communications

Gabriel Ouellet
General Manager,
Senneterre Plant,
Biomass Technical Director,
Qc and USA

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Fax: 1 888 453-0330 / 514 982-7635
service@computershare.com

Shareholder Information

The annual Meeting of Shareholders
will be held at 11:00 a.m., Monday,
May 12, 2008 at the:

Mont-Royal Center

Room International I and II
2200 Mansfield Street
Montréal, Québec H3A 3R8 Canada
Telephone: 514 844-2000 / 1 888 844-2200

Additional information

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Communications Department
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770 Sherbrooke Street West
Montréal, Québec H3A 1G1 Canada
Telephone: 514 985-1353
Fax: 514 985-1355

Additional copies of the following documents
and other information can also be obtained
at the above address or on Borex Inc.'s
and SEDAR's websites:

- Annual Report - Quarterly Reports
- Annual Information Form - Information Circular

Pour obtenir une version française du rapport annuel,
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