

wind,  
water  
and fire



natural elements,  
we *make* the most  
of their energy

2006 Annual Report

Borex Inc. (“Borex” or the “Corporation”) is a major 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 power stations with a combined installed capacity of 333 megawatts (“MW”). Borex is distinguished by its leading expertise and long experience in four types of power generation:

>> Over the past five years, Borex has become one of the biggest and most experienced **wind power** producers in France, where it currently operates six wind farms with a total installed capacity of 89 MW. A new 12-MW wind farm will be starting up in St-Agrève, France in 2007.  
>> Borex owns eight **hydroelectric** power stations, including five in the United States, two in Québec and one in France, with a combined installed capacity of 26 MW.

>> Borex is the largest producer of **wood-residue** energy in North America, operating six thermal power stations in the states of Maine and New York with a total installed capacity of 204 MW.  
>> Borex also operates a 14-MW **natural gas** cogeneration power station in France.

In addition to its own power stations, Borex manages 10 power stations for the Borex Power Income Fund (the “Fund”), in which it holds a 23% interest. These facilities have a total capacity of 190 MW and consist of one thermal power station and one wood-residue cogeneration plant in Québec, seven hydroelectric power stations (five in Québec and two in the United States), and a natural gas cogeneration power station in Québec.

1	Our Vision
2	2006 Financial Highlights and Stock Data
3	Overview of Fiscal 2006
4	Message to Shareholders
8	Review of Operations
14	Description and Geographic Location of the Power Stations
16	Sustainable Development
18	Directors and Management
20	Management’s Discussion & Analysis
44	Selected Quarterly Information
45	Management’s Report and Auditors’ Report
46	Consolidated Financial Statements
49	Notes to Consolidated Financial Statements
69	General Information

# Our vision

Boralex's goal is to be a Canadian leader in the development and operation of renewable energy in North America and Europe.

We plan to grow by generating electricity from natural or recycled sources in a manner that respects both communities and the environment.

Our strength lies in the expertise, skills and innovative spirit of our employees.

Our commitment is to manage our facilities ethically, to be a good corporate citizen and to provide a sustained financial performance to our shareholders and partners.

2006 Financial Highlights and Stock Data

(in thousands of dollars, unless otherwise specified)

	2006	2005	2004	2003
	(12 MONTHS)	(12 MONTHS)	(15 MONTHS) (RESTATED) <sup>(1)</sup>	(12 MONTHS)
<b>OPERATIONS</b>				
Revenue from energy sales	120,002	108,696	91,362	64,096
Share in earnings of the Fund	10,023	8,873	11,722	8,197
EBITDA <sup>(2)</sup>	42,822	34,084	12,906	5,401
Net earnings (net loss)	15,020	21,088	(1,362)	(5,709)
Cash flows from operations <sup>(2)</sup>	24,518	26,219	11,977	7,108
<b>INVESTMENTS</b>				
Purchase of property, plant and equipment	19,201	135,753	41,385	12,514
Business acquisitions	6,749	18,642	1,585	12,616
<b>FINANCIAL POSITION</b>				
Property, plant and equipment	282,489	262,460	152,076	128,111
Investment <sup>(3)</sup>	75,553	77,997	82,615	89,969
Total assets	478,383	429,515	273,888	252,716
Long-term debt	192,493	164,832	37,994	35,005
Shareholders' equity	183,602	165,211	150,805	164,871
<b>CLASS A SHARE DATA</b>				
Net earnings (net loss) from continuing operations per share	\$0.50	\$0.70	\$(0.03)	\$(0.13)
Net earnings (net loss) per share - basic	\$0.50	\$0.70	\$(0.05)	\$(0.19)
Net earnings (net loss) per share - diluted	\$0.49	\$0.70	\$(0.05)	\$(0.19)
Shareholders' equity per share outstanding at the end of the period	\$6.11	\$5.51	\$ 5.03	\$ 5.52
Weighted average number of shares outstanding (in thousands)	30,050	29,987	29,913	29,931
Shares outstanding, end of period (in thousands)	30,050	29,989	29,987	29,865
<b>FINANCIAL RATIO</b>				
Long-term debt to equity	1.05	1.00	0.25	0.21

(1) Financial statements figures have been reclassified to conform to the 2006 presentation, including the presentation of discontinued operations.

(2) Earnings before interest, taxes, depreciation and amortization. EBITDA and cash flows from operations are not measures of performance under the Canadian generally accepted accounting principles. Refer to the Additional Information about Non-GAAP Performance Measurements section of the management's discussion and analysis on page 26.

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

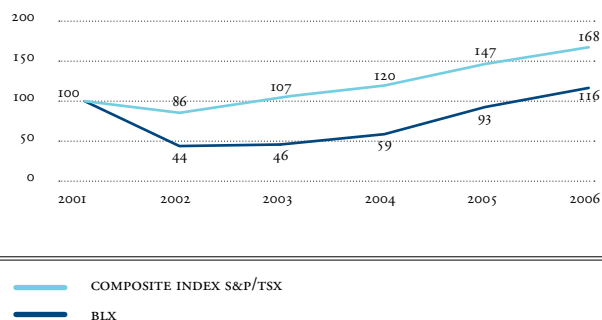
**STOCK DATA**

Securities: ..... Class A Shares  
 Symbol: ..... BLX  
 Exchange: ..... Toronto  
 Principal Shareholder (As at December 31, 2006): ..... Cascades Inc. 43%

**TRADING ON CLASS A SHARES**

Financial year ended	Shares issued and outstanding	High	Low	Closing price
December 31, 2006	30,049,586	\$11.25	\$7.99	\$10.40
December 31, 2005	29,989,398	\$9.00	\$5.50	\$8.39

**GROWTH IN STOCK PRICE BLX (TSX)**



26% *growth  
in EBITDA <sup>(1)</sup>*

\$20 *million of EBITDA  
from the wind power segment*

10% *increase in revenue  
from energy sales*

\$15 *million in net earnings,  
or \$0.49 per share*

#### WIND POWER SEGMENT

- >> Revenue up 267% and EBITDA up 377% due to the efficient start-up of three new sites in France late in 2005, and to an improved availability rate of the wind power facilities in general.
- >> Installation of a state-of-the-art remote control centre in Blendecques, France.
- >> In Québec, continued assessment work of a planned wind farm of more than 400 MW in partnership with the Seminary of Québec and Gaz Métro. To date, numerous studies confirm the excellent potential of this site.

#### HYDROELECTRIC POWER SEGMENT

- >> Increases of 9% in revenue from energy sales and 15% in EBITDA, despite lower market prices for electricity in the northeastern United States.

- >> Record production levels up 26% compared to 2005 and 22% over the historical average due to outstanding hydrology in the northeastern United States.

#### NATURAL GAS SEGMENT

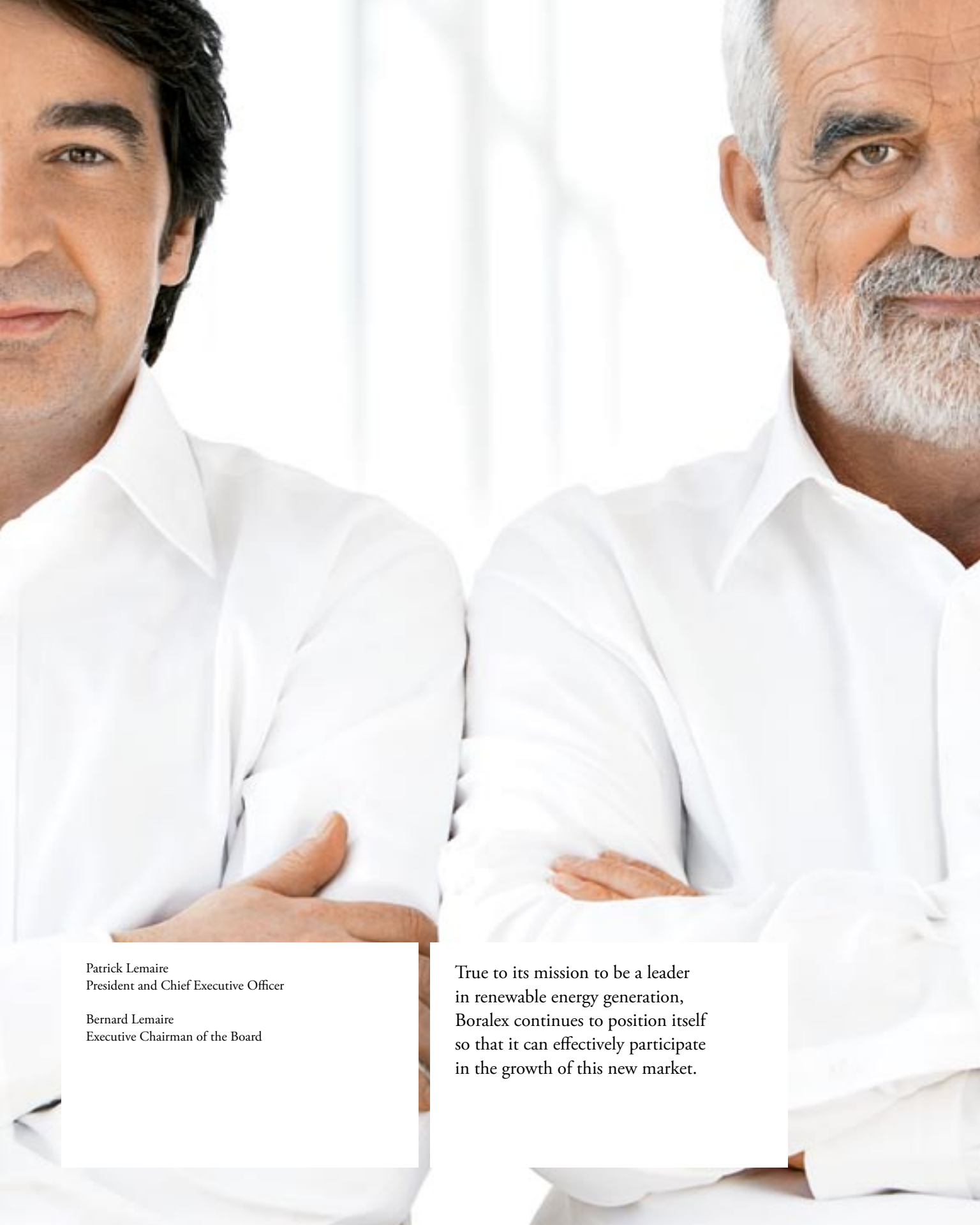
- >> Revenue from energy sales up 6% and EBITDA up 100%.
- >> \$3.4 million in sales of excess CO<sub>2</sub> emission quota.

#### WOOD-RESIDUE SEGMENT

- >> Revenue down 9% and EBITDA down 67%, primarily due to external factors: a temporary downturn in demand and market prices for Connecticut RECs, lower electricity prices on the open market in the northeastern U.S., and higher wood-residue costs.
- >> New 26-month electricity sales contracts

- signed at the end of the year for the Ashland and Fort Fairfield power stations, with terms that are in line with current market conditions.
- >> Chateaugay power station qualified to sell RECs in the state of New York and concluded a REC contract with the NY State government.
- >> Recovery of Connecticut's REC market in the fourth quarter: \$3.9 million in REC sales for the Stratton power station, and over US\$13 million in forward sales of its forecast production for 2007, 2008 and 2009.
- >> Closing, in December 2006, of a transaction resulting in the monetization of renewable energy production tax credits to be granted until 2009 to certain Boralex's U.S.-based wood-residue thermal power stations.

<sup>(1)</sup> Earnings before interest, taxes, depreciation and amortization

A photograph of two men from the chest up, both wearing white long-sleeved shirts and having their arms crossed. The man on the left is younger with dark hair, and the man on the right is older with grey hair and a beard. They are standing in front of a background of white wind turbine towers.

Patrick Lemaire  
President and Chief Executive Officer

Bernard Lemaire  
Executive Chairman of the Board

True to its mission to be a leader  
in renewable energy generation,  
Boralex continues to position itself  
so that it can effectively participate  
in the growth of this new market.

# Well-positioned for the future

After a period of major expansion in 2005, Boralex focused on consolidation and organic growth in fiscal 2006. In addition to optimizing our new wind power infrastructures in France, we continued to deepen and diversify our ability to operate power stations by strengthening our team and deploying unique, custom-designed performance tools.

## 2006 Results and Highlights

On the financial front, although Boralex's revenues grew by more than 10% to \$120 million for the fiscal year ended December 31, 2006, profitability was down from the record performance of 2005, primarily due to more difficult conditions in the U.S. wood-residue segment. As we anticipated, Connecticut's emerging market in renewable energy certificates ("RECs") went through a year of transition marked by higher supply than demand, which led to a temporary decline in prices. This situation, along with lower electricity prices on the northeastern U.S. open market, higher wood-residue supply prices and a major equipment breakdown at our Stratton facility, largely account for the decrease in the Corporation's net earnings, which dropped from \$21.1 million or \$0.70 per share in 2005, to \$15.0 million or \$0.49 per share in 2006. However, several positive developments occurred toward the end of fiscal 2006 and early in the new year, including the anticipated recovery in the REC market, so that we expect to see much better results for this segment in 2007.

All of Boralex's other segments did well in 2006. Growth was mainly driven by the wind power expansion in France in 2005, which more than tripled its capacity. In a highly effective push, a total of 42 new wind turbines were integrated and run-in during 2006. Over the past five years, Boralex

has invested almost \$200 million to establish its presence and develop its know-how in this market. It is now positioned as one of the largest and, above all, most experienced wind power producers in France.

In the 2006 fiscal year, results were also positively affected by excellent water flows in the hydroelectric segment, the sale of excess carbon dioxide ("CO<sub>2</sub>") quota by our natural gas cogeneration plant in France, and a significant increase in our share of the results from the Boralex Power Income Fund. Boralex is the manager and the principal unitholder in the Fund.

Following the federal government announcement in October 2006 about the planned new tax treatment for income trusts, which could take effect in 2011, the Fund set up an independent committee to evaluate its options. The Fund has announced on March 2, 2007 that it has resolved to commence a process to solicit proposals leading to a potential sale of, or merger with, the Fund. Boralex's shareholders will be informed at the appropriate time of any major development on this issue and its impact on Boralex.

In addition, financial arrangements were made in fiscal 2006 that give Boralex greater flexibility for further expansion. These include an \$85 million revolving credit arrangement early in the year and, more recently, an important transaction that allows Boralex to monetize tax credits for the renewable energy generated by certain of its U.S. wood-residue power stations until 2009. This transaction resulted in US\$14.5 million cash inflow in the fourth quarter. Plus, under the terms of the agreement, Boralex will receive US\$12.8 million over in the next three fiscal years based on the amount of power generated by our wood-residue facilities.

“We expect that Boralex will post a solid performance in 2007, given the favourable trends in our target markets and our efforts over the past several years to optimize power station performance and develop our expertise.”

### Outlook

Profitability in the wood-residue segment, in particular, should improve significantly in 2007. Demand and prices in the Connecticut REC market have trended upward since the fourth quarter of 2006. This should continue in future years since Connecticut, where Stratton is qualified to sell RECs, has set a minimum percentage for the renewable energy that distributors must carry, and that percentage rises over time; it will more than triple by 2010 compared to 2006. In addition to signing firm contracts to sell most of the RECs it expects to produce in 2007, Stratton has already found buyers for part of its 2008 and 2009 production, for revenues of more than US\$13 million to date. For its part, the Chateaugay power station, which qualified for the New York State REC market in February 2006, recently signed a contract to sell its RECs to the government of New York State, effective April 1, 2006, which gives it additional security for the next 10 years. We are currently evaluating the other New England REC markets to eventually qualify other wood-residue facilities.

The Corporation has also instituted a number of measures over the past few years, and more particularly in 2006, to stabilize and optimize power sales and improve profitability in the wood-residue segment. Highlights include the renewal in January 2007 of two-year contracts to sell the power generated by the Ashland and Fort Fairfield power stations, at terms that are more in line with the actual market. This will significantly increase the profitability of these two plants as well as the average sales price per megawatt-hour (“MWh”) for the wood-residue segment, even though we expect prices on the open market to remain relatively stable in 2007. We also signed contracts to sell a significant part of the 2007 power generated by Stratton and Livermore Falls, which will help secure their revenues. Boralex also took steps to take advantage of the Forward Capacity Market, a new market that allows wood-residue power producers to receive compensation for

committing to maintain their existing capacity. This new market will represent a significant source of recurring revenue starting in 2007. Our wood-residue segment continues to improve the availability, quality and cost of fuel, a central aspect of its global program to optimize power-station productivity and efficiency.

We also expect our wind power segment to contribute more to Boralex’s earnings in 2007, since the new Massif Central and Plouguin wind farms built in 2005 and ramped up in 2006 will be fully operational in 2007. A new 12-MW wind farm will also begin operating in mid-2007, and capacity at an existing site will be expanded later in the year. Given that the average price our facilities receive is higher in France than in North America, raising the volume of power generated in France has a significant positive impact on Boralex’s profitability. Wind power results will also benefit from Boralex’s ever-more efficient and proactive technical management of its facilities. Last year, drawing on Boralex’s remote management and preventive maintenance experience acquired over a number of years in the hydroelectric segment, our wind farm team in France set up an advanced remote management centre that now connects all its facilities. The team also installed sophisticated communication equipment to monitor the real-time physical environment and wind-turbine performance. This has had a positive impact on the availability rate, productivity and maintenance expenses of these facilities. Such tools will be highly useful for all our future wind power projects, no matter where they are located.

For the past five years we have taken a cautious approach as we gradually became more familiar with wind power generation. Now that we have a proven track record and solid experience in operating sites of 12 MW to 39 MW, we are ready to take on bigger projects. The French government has said that it wants to increase wind power generation by a factor of ten over the next 10 years, and has backed that up by



passing legislation to encourage investment in this sector. This is an incentive for us to pursue an ambitious investment strategy in France, where we intend to substantially increase our installed capacity in the near future. We will also be exploring growth opportunities in other countries in Europe.

In Québec, we are working with Gaz Métro and the Séminaire de Québec on the Seigneurie de Beaupré project, which will involve building a wind farm that can generate more than 400 MW. The project will be submitted to Hydro-Québec Distribution this year, in response to their 2005 call for bids for an additional 2,000 MW. Many surveys have been done of this large and very well-located site and the data confirm its excellent potential.

#### Renewed Commitment to Economic Value Creation that Respects Communities and the Environment

A profound shift in public opinion and government policy in many industrialized countries is resulting in concrete action to control greenhouse gases and protect the environment. Given this context, we wish to provide more details about our vision for the future of Boralex. Our vision is based on the fundamental choice we have made from the very beginning: to reconcile value creation for shareholders with our active commitment to the environment and society, in the true spirit of sustainable development.

From a strictly economic point of view, it is clear that the new interest in renewable energy, and particularly wind power, raises new challenges. These include increased competition for equipment, higher project acquisition costs and the entry of well-capitalized corporations into the market. Not only do we believe that Boralex is in a good position to take on these challenges, we also see them as real opportunities for growth. The upcoming wave of new capital investment and renewable energy generation projects could give rise to a large asset base that would have to be made profitable as soon as possible

and then offer acceptable, stable and predictable returns.

The result will depend in large part on the ability to optimize asset operation by maximizing performance and reliability, which requires proven know-how, specific technical skills and specialized tools, in particular in preventive maintenance. These are all things that Boralex can provide, thanks to a solid, experienced and highly talented team.

Boralex's primary strength is that it is, first and foremost, an operator with a long-term vision and proven know-how in renewable energy generation. We have been working in this field for more than 15 years and have acquired and developed skills and knowledge that are not easily found in the marketplace, especially since they encompass different types of power generation and a broad range of natural conditions. Boralex's second strength is its experience in site evaluation and development, an area that will help its continued expansion in the months and years to come. Thus, while continually looking for opportunities to acquire projects or assets that meet our strategic and financial criteria, we will also be trying to identify sites with strong potential that we can develop alone or through a partnership.

We are determined to keep Boralex growing, primarily in North America and Europe, in line with its long-held values and with close attention to minimizing the costs and risks associated with growth as well as existing operations. The Corporation's balanced and profitable development will continue to be supported by its geographic, segment and technological diversification, as well as its expert team and the steady integration of new technical skills and advanced tools.

To conclude, we wish to thank every member of the Boralex team for their dedication and exemplary energy in taking on the challenges and seizing the opportunities that make it possible for the company to evolve in accordance with its vision. We also thank our shareholders for their trust in us, and our Board of Directors for their knowledgeable counsel.

(s) Bernard Lemaire

Bernard Lemaire  
Executive Chairman of the Board

(s) Patrick Lemaire

Patrick Lemaire  
President and Chief Executive Officer

# wind

*invisible,*  
yet we make use  
of its strength

6 wind farms  
in France  
60 wind turbines  
89 MW  
19%

*of revenue from  
energy sales in 2006*

1 site under  
construction  
6 wind turbines  
12 MW



# Our actions for a greener environment

## Wind Power

In December 2005, Boralex started operating three new wind power sites in France, two in Massif Central (57 MW) and one in Plouguin, Brittany (8 MW). In just a few weeks, the number of wind turbines we operate rose from 18 to 60, almost quadrupling our installed capacity and positioning Boralex as one of the largest wind power producers in France, generating about 10% of France's power in 2006. The fact that we have a geographically diversified asset base helps limit our operating risk yet gives us special expertise in the operation of wind turbines under different conditions (near the sea, in the mountains, on the plains, etc.). This experience will help Boralex establish farms in other regions that are favourable to the development of wind power.

The wind power segment began 2006 with a considerable challenge: to integrate a major expansion as quickly and efficiently as possible. This involved hiring new staff, training all operators—particularly in inspection and preventive maintenance techniques—and setting up a state-of-the-art control centre. The control centre, which is in Blendecques, is based on the one Boralex has run in Kingsey Falls (Québec) since 1989.

It manages all our sites remotely using highly advanced communication and monitoring equipment (largely developed in-house), including a system for the real-time analysis of wind-turbine performance.

We had to overcome considerable challenges at the beginning of the run-in period as a result of heavier-than-normal icing and some equipment failures. However, we quickly implemented corrective measures and then focused our efforts on developing preventive methods that are unique in the wind power industry. Boralex is now, for instance, awaiting a patent for its new method of preventing blade icing.

Unlike other methods in the industry, which are limited to notifying operators that there is ice on the blades, our sophisticated technology measures the meteorological conditions and detects, before they occur, situations in which ice is likely to form. Operators can then stop the turbines until weather conditions improve. This greatly reduces the risk of damage and the dangers of flying ice. By increasing equipment reliability and availability, this advance has a direct impact on the operational and financial performance of our wind farms. In conjunction with other proactive



*Our wind farms, at Ally or elsewhere, are integrated in their environment.*

measures and controls, this innovation allowed us to progressively increase the average availability of our wind turbines over the course of 2006.

In 2006, Boralex's wind power segment generated 189,964 MWh of electricity. Performance should improve significantly in 2007 given that our new infrastructures are now fully operational. Also, in June 2007 in the St-Agrève area, we will be starting up our seventh wind farm with six wind turbines, for a total capacity of 12 MW. Given St-Agrève's proximity to Massif Central,

# water

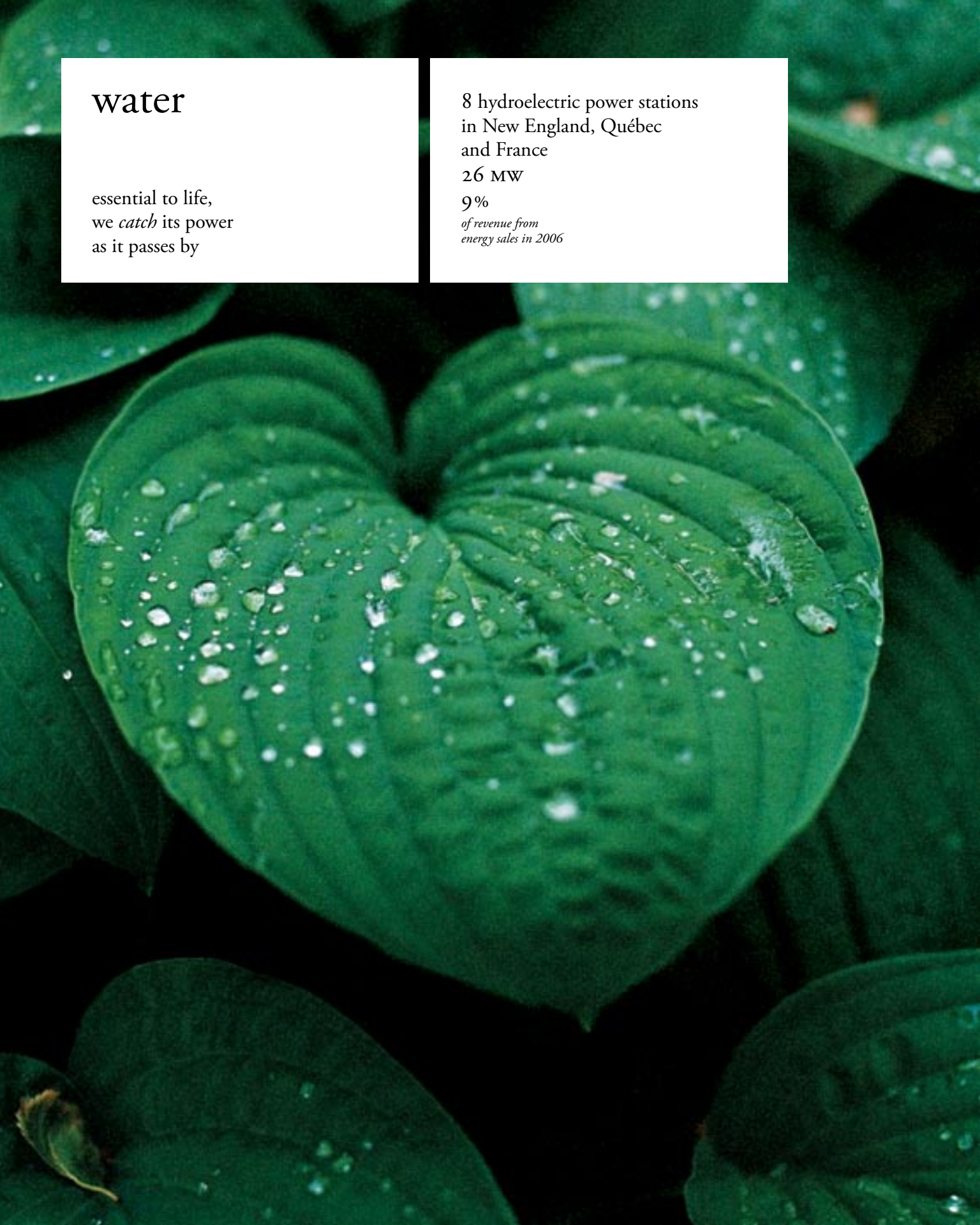
essential to life,  
we *catch* its power  
as it passes by

8 hydroelectric power stations  
in New England, Québec  
and France

26 MW

9%

*of revenue from  
energy sales in 2006*



we will benefit from certain operational synergies. In the latter half of fiscal 2007 we plan to increase the capacity of our Avignonet-Lauragais wind farm by 4 MW, which will have a favourable impact on its profitability. Other projects are being developed in France, including some under the memorandum of understanding signed in 2005 with developers to enhance certain sites by adding a potential 70 MW.

In Québec, the project undertaken in 2005 with Gaz Métro and the Séminaire de Québec to develop and operate, if possible, a wind power site of more than 400 MW on the Seigneurie de Beaupré lands is progressing very well. The necessary studies (including surveys of the environmental, landscape and noise impacts) were conducted to our satisfaction and submitted to the concerned ministries. We have accumulated more than 15 months of site wind measurements from a dozen measurement towers. The towers were equipped with our devices for detecting ice and analyzing weather conditions, which is extremely useful for this project in particular and gives us an undeniable advantage in our other possible projects in Québec and elsewhere in North America and Europe.

### Hydroelectric Power

One of Boralex's first areas of expertise was operating hydroelectric power stations in which it often pioneered innovative approaches, particularly in preventive maintenance and the remote management of power stations. Since most of Boralex's hydroelectric facilities are now located in New York State, its team has also acquired over the last years leading expertise in selling electricity on the open market.

Year after year, Boralex's hydroelectric plants have provided a reliable and pro-

fitable revenue stream, despite the inevitable power generation fluctuations due to changes in water flows. Fiscal 2006 was an excellent year, since water flows were much higher than in 2005, especially in the northeastern United States. Our eight power stations generated a total of 138,518 MWh, up 26% over fiscal 2005 and exceeding their historical average by 22%. The U.S. power stations even exceeded their record level of production of 2004, reporting the best year ever since they were built in the late 1980's, and did so despite an equipment breakdown in August 2006 which took the Warrensburg plant in the U.S. offline for three months. Despite the decline in electricity prices on the open market, the productivity of our hydroelectric power stations, combined with our ongoing efforts to improve their reliability and reduce maintenance costs by instituting new preventive measures, enabled this segment to report a solid performance in 2006.

Over the past three years, we have greatly improved our methods of preventive management. For example, we regularly use non-destructive techniques to detect any problems in our machine components. We are also preparing to roll out a real-time turbine efficiency program that uses new remote management technologies.

We are confident that the hydroelectric segment will continue to do well in 2007, since our power stations continue to improve their reliability and costs. We also continue to study potential power-station acquisitions or building projects which, in accordance with our vision, will make it possible to promote the long-term growth of this green and renewable energy par excellence.

### Wood-Residue Thermal Power

Boralex entered this segment in 1998 and is now the largest producer of wood-residue thermal energy in North America. In 2006, the acquisition of a sixth 18-MW plant in Stacyville, Maine raised our installed capacity to 204 MW.

In recent years, we have adopted a multi-level strategy to optimize power sales based on market prices, and make the most out of the other sources of revenue to which we have access as a renewable energy producer. Among them, the REC market is a particularly promising opportunity. In 2006, however, our revenue from this segment was affected by two events. First, the REC market in Connecticut went through a transition period marked by a significant drop in prices, which led us to postpone the sale of part of the RECs produced by our power station in Stratton, Maine. Second, Stratton suffered successive breaks, which prevented it from producing RECs for close to 75 days. Preventive measures were implemented to effectively limit the recurrence of a similar event.

*Run-of-river,  
the Huntingville power station  
lives in harmony  
with the environment.*



# fire

tamed,  
we *channel*  
its energy

6 thermal power  
stations in the  
northeastern U.S.  
204 MW  
60%

*of revenue from  
energy sales in 2006*

1 cogeneration  
power station  
in France

14 MW  
12%

*of revenue from  
energy sales in 2006*



In the REC market in Connecticut, the strengthening demand and prices that we expected to see in 2007 actually materialized in the fourth quarter of 2006. The start of a new cycle of higher demand gave us the opportunity to sign a series of firm agreements to sell most of Stratton's production for 2007, and even part of 2008 and 2009.

We reached another important stage when our power station in Chateaugay, New York officially qualified for the New York State REC market in February 2006, which allowed it to sell RECs produced between April 1 and December 31, 2006. These positive developments lead us to believe that the REC market in the northeastern United States will have a significant impact on the performance of Boralex's wood-residue segment in the coming quarters and years.

To optimize revenue from power sales, we must ensure that we have an adequate supply of high-quality wood-residue, which is a major challenge given their low availability. Thus, in 2004, Boralex adopted an innovative approach in which we supply contractors who operate near our facilities with specialized equipment that makes it possible to recover the tops and branches of trees abandoned in the forest by harvesters. This is an excellent source of fuel that would otherwise not be utilized. In 2006, we more than doubled the number of these specialized units and now have 17 that are operated by a dozen partners who supply our power stations with about 600,000 tons of wood residue per year, meeting more than a third of their fuel requirements. Wood-residues produced by forest harvesting has thus become our primary source of fuel which in the medium term, will have a positive impact on the performance and maintenance costs of our power stations, given



*Fire converts wood-residue,  
a resource otherwise wasted,  
into energy.*

how cleanly this material burns. We also obtain construction and demolition wood from local suppliers, along with urban and industrial wood recovered by our sorting and recycling centre in Montréal. Boralex is continually analyzing alternatives and various wood-quality combinations in order to optimize its burn rate costs and decrease transportation charges.

Finally, in 2006, we started a general power-station optimization program that will help our facilities generate power at a lower cost and improve their performance without major investments. The program involves rigorous quality control of wood residues as well as a series of initiatives to improve the efficiency of boilers and equipment. Some plants are already operating at optimal capacity, while others should reach it in the next few quarters. In fiscal 2006, the power station optimization program and the improvements in our supply practices helped raise production in the wood-residue segment by more than 7%, excluding Stratton and the new facility

in Stacyville. Including the latter two, production for 2006 totalled 1,010,206 MWh.

Fiscal 2007 is off to a good start, especially since the Ashland and Fort Fairfield facilities in Maine began the year with power sales contracts that are more in line with the current market conditions and its cost structure. In the coming years, we will continue our efforts to guarantee the availability of our power stations and deliver electricity steadily and profitably.

#### Natural Gas Cogeneration Plant

Boralex operates a cogeneration plant in France that supplies steam to a containerboard plant and sells electricity to *Électricité de France* ("EDF"). For the past two years, given the high price of natural gas and clauses in its contract with EDF, this business unit stopped generating electricity in the summer while continuing to serve its steam client from an auxiliary boiler. To date, this shortfall has been offset by the sale of excess CO<sub>2</sub> quota, as provided in the mechanism set up by the European Union following implementation of the Kyoto Protocol in Europe. The natural gas cogeneration plant should continue this operating mode in 2007. This decision will be reevaluated if the natural gas costs drop significantly.

Wood-Residue  
Power

204<sub>MW</sub>

6 WOOD-RESIDUE  
POWER STATIONS  
1 SORTING CENTRE

**Ashland,**  
*Maine, U.S.A.*  
Capacity: 40 MW  
Annual Output Capacity:  
252 GWh

**Chateaugay,**  
*New York, U.S.A.*  
Capacity: 20 MW  
Annual Output Capacity:  
140 GWh

**Fort Fairfield,**  
*Maine, U.S.A.*  
Capacity: 36 MW  
Annual Output Capacity:  
240 GWh

**Livermore Falls,**  
*Maine, U.S.A.*  
Capacity: 40 MW  
Annual Output Capacity:  
252 GWh

**Stacyville,**  
*Maine, U.S.A.*  
Capacity: 18 MW  
Annual Output Capacity:  
125 GWh

**Stratton,**  
*Maine, U.S.A.*  
Capacity: 50 MW  
Annual Output Capacity:  
370 GWh

**Urban Wood Recovery and  
Sorting Centre in Montreal**  
*Québec, Canada*  
Annual Recycling Capacity:  
70,000 tonnes

Wind  
Power

89<sub>MW</sub>

6 WIND POWER STATIONS  
60 WIND TURBINES  
1 WIND POWER STATION  
UNDER CONSTRUCTION

**Avignonet-Lauragais,**  
*France*  
Capacity: 8 MW  
Annual Output Capacity:  
20 GWh  
Expected growth: 4 MW

**Chépy,**  
*France*  
Capacity: 4 MW  
Annual Output Capacity:  
7.1 GWh

**Nibas,**  
*France*  
Capacity: 12 MW  
Annual Output Capacity:  
21.4 GWh

**Ally-Mercoeur,**  
*France*  
Capacity: 39 MW  
Annual Output Capacity:  
78 GWh

**Cham de Cham Longe,**  
*France*  
Capacity: 18 MW  
Annual Output Capacity:  
58 GWh

**Plouguin,**  
*France*  
Capacity: 8 MW  
Annual Output Capacity:  
21 GWh

**St-Agrève,**  
*France*  
(Under construction)  
Confirmed Capacity: 12 MW

Hydroelectricity  
Power

26<sub>MW</sub>

8 HYDROELECTRIC  
POWER STATIONS

**East Angus,**  
*Québec, Canada*  
Capacity: 2.2 MW  
Annual Output Capacity:  
15 GWh

**Huntingville,**  
*Québec, Canada*  
Capacity: 0.3 MW  
Annual Output Capacity:  
1 GWh

**La Rochette,**  
*France*  
Capacity: 1 MW  
Annual Output Capacity:  
3 GWh

**Fourth Branch,**  
*New York, U.S.A.*  
Capacity: 3.1 MW  
Annual Output Capacity:  
14 GWh

**Middle Falls,**  
*New York, U.S.A.*  
Capacity: 2.3 MW  
Annual Output Capacity:  
10.2 GWh

**New York State Dam,**  
*New York, U.S.A.*  
Capacity: 11.4 MW  
Annual Output Capacity:  
48.4 GWh

**Sissonville,**  
*New York, U.S.A.*  
Capacity: 3 MW  
Annual Output Capacity:  
13.3 GWh

**Warrensburg,**  
*New York, U.S.A.*  
Capacity: 2.9 MW  
Annual Output Capacity:  
10.9 GWh

Natural Gas  
Power

14<sub>MW</sub>

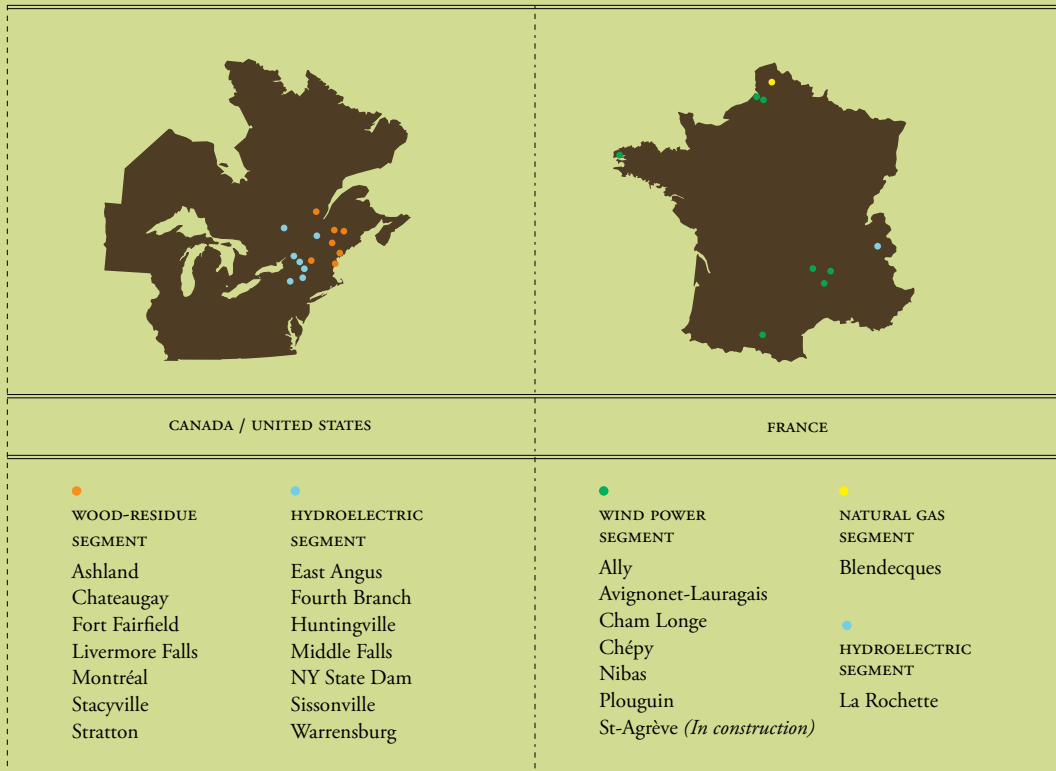
1 NATURAL GAS-FIRED  
COGENERATION  
POWER STATION

**Blendecques,**  
*France*  
Capacity: 14 MW  
Annual Output Capacity:  
82 GWh  
Annual Output of Steam:  
528,000 thousands of pounds



# Our power stations

A total installed capacity of 333 MW, on two continents and in four types of power generation.



Protecting  
the environment,  
being a good  
corporate citizen  
and creating economic  
value are, for Boralex,  
interrelated  
commitments.

The principle of sustainable development is at the very heart of our corporate mission. It dictates all of our growth strategies, our management practices, the day-to-day operation of our facilities, and our relations with Boralex's various stakeholders.

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ENVIRONMENT

Boralex generated more than 1,338,688 MWh of clean, renewable energy in 2006, enough to provide electricity for 95,427 households, and to prevent the emission of 139,000 tonnes of CO<sub>2</sub>.

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Some years ago, Boralex adopted an environmental mission that channels our resources and our know-how towards implementing the business processes that are most conducive to environmental protection. We therefore encourage the acquisition and in-house development of innovative technologies that can both improve our productivity and minimize our environmental footprint.

As well, we constantly endeavour to integrate our facilities in an ecologically balanced way, and to prioritize respect for the environment in our project development activities.

In the hydroelectric power segment, Boralex operates run-of-river power stations that minimize the impact on aquatic flora and fauna. We have also demonstrated our accountability and innovation by incorporating migration systems for salmon on some of the rivers we have harnessed.

Every year, our six thermal power stations make use of over 1,800,000 tons of wood residue that would otherwise go to waste or end up in landfills. Since 2004, Boralex has invested heavily in its power stations, equipping them with advanced systems to control combustion gases and atmospheric emissions of nitrogen oxides,

carbon monoxide and particules from the wood-fuelled boilers. As well, the ash resulting from the wood residue burning process is recovered and used for agricultural purposes where the law allows it.

Since 2005, our natural gas cogeneration plant in Blendecques has been participating in Europe's excess CO<sub>2</sub> emission quota market.

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COMMUNITY

In 2006, Boralex dedicated 2.7% of its payroll for training. Thus, employees benefited from 7,301 hours of training.

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The community is a constant concern for Boralex. Our employees are our most valuable asset. Boralex recognizes the essential contribution they make to the Corporation's success, and develops transparent, proactive, and empowering management policies for their benefit.

Boralex gives priority to honest communications and an open-door policy. Our corporate culture emphasizes equity and zero tolerance for discrimination, with plenty of room for innovative ideas so that each and every person can develop to their full potential.

We have stringent and rigorous workplace health and safety practices which are a priority for management. In addition to its profit-sharing policy, Boralex offers employees a worthwhile and competitive benefit and insurance plan, as well as a service recognition program.

Through many initiatives, Boralex fosters the personal development of employees and seeks to improve their quality of life. A variety of social and sports activities are held throughout the year to enhance employee well-being and promote team spirit.

Boralex also respects the people who live in the regions where we operate.

We take steps to ensure that our development is built on dialogue and cooperation with elected representatives and the communities that host our facilities, and that such development respects the local surroundings and the natural environment for tourism. In addition to its respectful treatment of local environments, Boralex supports the communities that host its facilities with a variety of donations and sponsorships. More than 140 organizations have received financial support from us in the past three years.

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ECONOMY

During the last three years, Boralex has invested more than \$238 million in various development projects.

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Boralex believes – and for a number of years has been proving – that it is possible to create added value for shareholders while contributing to society in a sustainable manner. Our power generation operations, by their very nature, fit into this approach.

Boralex seeks to provide not only financial returns for shareholders, but also economic benefits for other stakeholders, including employees, suppliers and partners. Furthermore, Boralex's financial success not only contributes to the economic development of Québec, but also generates benefits for the regions where we operate facilities.

Moreover, Boralex is committed to running its business transparently, in accordance with the rules of good governance. Every employee also undertakes to uphold the ethical principles defined by Boralex. This is also true for our Code of Ethics which guides our directors on issues such as confidentiality, competition and conflicts of interests.

<sup>1</sup> Based on a calculation tool by RETScreen International.



## Board of Directors

**Bernard Lemaire**<sup>(1)</sup>  
Executive Chairman  
of the Board  
Boralex Inc.  
Chairman of the Board  
Cascades Inc.

**Patrick Lemaire**<sup>(1)(3)</sup>  
President and Chief  
Executive Officer  
Boralex Inc.

**Germain Benoit**<sup>(2)(4)</sup>  
President  
Capital Benoit Inc.

**Allan Hogg**<sup>(1)</sup>  
Corporate Controller  
and Treasurer  
Cascades Inc.

**Edward H. Kernaghan**<sup>(4)</sup>  
President  
Principia Research Inc.  
Vice-President  
Kernaghan Securities Ltd  
and Kernwood Ltd

**Richard Lemaire**<sup>(5)</sup>  
President  
Séchoirs Kingsey Falls Inc.

**Yves Rheault**<sup>(5)</sup>  
Administrator of  
Corporations and Consultant

**Michelle Samson-Doel**<sup>(2)(5)</sup>  
President  
Samson-Doel Group Ltd.  
and Administrator  
of Corporations

**Pierre Seccareccia**<sup>(2)(4)(5)</sup>  
Administrator of  
Corporations

**Gilles Shooner**<sup>(5)</sup>  
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**  
Senior Legal Counsel  
and Corporate Secretary

**Denis Aubut**  
General Manager,  
Hydroelectric and Gas  
Cogeneration Divisions

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

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

**Hugues Girardin**  
General Manager,  
Electric and Wind  
Power Divisions

**Guy D'Aoust**  
Director,  
Finance and Treasury

**Nathan Hebel**  
Director, Energy Trading

**Judy Kerwin**  
Director, Human Resources

**Patricia Lemaire**  
Director, Communications

<< In the picture, the management team from left to right:

Judy Kerwin, Patrick Lemaire, Denis Aubut, Jean-François Thibodeau, Mario Dugas,

Hugues Girardin, Nathan Hebel, Patricia Lemaire, Claude Audet, Patrick Decostre and Sylvain Aird.

# Management's Discussion & Analysis

for the year ended December 31, 2006

## DESCRIPTION OF ACTIVITIES

Borex Inc. ("Borex" or the "Corporation") is a private electricity producer operating in Québec, Canada, in the northeastern United States and in France, with about 300 employees. The Corporation specializes in the generation of renewable energy; it thus owns and operates 21 power generation sites with a combined installed capacity of 333 megawatts ("MW"). In addition to its own power stations, Borex manages ten power stations with a total installed capacity of 190 MW in Québec and the northeastern United States that belong to the Borex Power Income Fund (the "Fund"), in which it has a 23% interest.

Borex operates in four different sectors that each corresponds to a different type of energy production.

- >> Over the past five years, Borex has developed leading expertise in **wind power**; it currently operates six wind farms in France with a total installed capacity of 89 MW. In 2007, a new 12 MW wind farm will start operating in St-Agrève, France.
- >> Borex owns eight **hydroelectric power** stations, of which five are in the United States, two in Québec and one in France, with a combined total installed capacity of 26 MW. The Corporation manages another seven hydroelectric power stations for the Fund, of which five are in Québec and two in the United States, with a total installed capacity of just over 96 MW.
- >> Borex is one of the largest producers of **wood-residue energy** in North America, with six thermal power stations in Maine and New York State (United States) that have a total installed capacity of 204 MW. In addition, on behalf of the Fund, the Corporation manages a wood-residue thermal power station with an installed capacity of 35 MW and a wood-residue cogeneration power station with an installed capacity of 28 MW in Québec. To provide a partial source of supply for the power stations, Borex

- operates a division that recycles urban waste wood, and has supply agreements with various Canadian and U.S. providers.
- >> In France, Borex operates a 14 MW **natural gas cogeneration power station** that also produces 528,000 thousand pounds of steam per year. The Corporation also manages Québec's only natural gas cogeneration power station for the Fund, which has an installed capacity of 31 MW and produces 870,000 thousand pounds of steam per year.

Borex's stock, in which Cascades Inc. holds a 43% interest, trades on the Toronto Stock Exchange under the ticker symbol BLX.

## INTRODUCTORY COMMENTS

### General

This management report discusses the operating results and cash flows for the fiscal year ended December 31, 2006 compared to the fiscal year ended December 31, 2005, and its financial position at those dates. It should be read in conjunction with the audited consolidated financial statements and related notes in this Annual Report. Additional information about the Corporation, including the annual information form, previous annual reports, management reports and quarterly financial statements and press releases are published separately and are available on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

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

The information contained in this report reflects all material events up to February 28, 2007, the date on which the Board of Directors approved the 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 report is to help the reader understand the nature and importance of changes and trends, as well as the risks and uncertainties that can affect Boralex's operating results and financial position. Some of the statements contained in this analysis, including those regarding future results and performance, may constitute forward-looking statements within the meaning of securities legislation and 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.

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 or underlying such statements, or could have an impact on the degree of realization of a particular projection.

The main factors that may 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 fuel costs, currency fluctuations, volatility in the selling price of electricity, the Corporation's financing capacity, negative changes in the general market and industry conditions, as well as other factors described in *Risks and Uncertainties* in this Management's Discussion and Analysis.

No assurance may be given regarding actual results, returns or realizations that are presented or implied in 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, all financial information, including tabular information, is prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This report also contains figures that are not performance measurements according to GAAP. For instance, 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 reportable segments. Please see *Additional Information about non-GAAP Performances Measurements* in this report for a comparison of EBITDA figures and certain items in Boralex's consolidated results. Boralex also uses cash flows from operations which corresponds to cash flow from operating activities before changes in non-cash working capital balances in the consolidated

statement of cash flows as a useful financial indicator to measure cash flows provided by operations.

### Effectiveness of Controls and Procedures for Disclosure of Financial Information and Internal Financial Controls

Management has established and maintains controls and procedures for the disclosure of corporate information so that it can provide reasonable assurance that it promptly receives important information related to the Corporation. Management, including the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Corporation's controls and procedures for the disclosure of financial information as at the date of the 2006 annual report and has no knowledge of any significant change to these controls and procedures.

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 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 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 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

Operations and results for some of the Corporation's power stations are subject to seasonal cycles that vary by segment. The impact of seasonal variations differs depending on whether the power stations have power sale agreements or not. For the 13 Boralex power stations that have long-term fixed-price power sale agreements (six wind farms, one hydroelectric power station and one natural gas cogeneration plant in France; two hydroelectric power stations in Québec; one hydroelectric power station and two wood-residue thermal power stations in the United States), the 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 (four hydroelectric and four wood-residue power stations in Maine and New York), are more vulnerable to seasonal fluctuations which, in addition to influencing production volume, also have an impact on prices obtained on the electricity market.

Generally, electricity consumption increases in the winter and summer, which correspond to Boralex's first and third quarters. This means that, for those two periods, power stations that sell on the open market usually obtain higher average electricity prices. Given this, and because the wood-residue power stations can control their level of production, they generate more power during such periods. Their regular maintenance is then done in the spring or fall, which affects their operating results for those periods.

Hydroelectric generation depends on water flows, which in Québec and the northeastern US are at their maximum in the spring and are generally good in the fall, which correspond to Boralex's second and fourth quarters. Flows tend to decrease in the winter and summer. Note that Boralex's hydroelectric facilities do not have reservoirs that would permit regulation of water flows.

In the wind power segment, where Boralex's operations are currently focused in France, wind conditions are usually more favourable in the winter, that is, in Boralex's first and fourth quarters. However, in the winter there is a higher risk of downtime caused by weather conditions such as icing.

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 shut down in which case the Corporation supplies its steam customer from an auxiliary boiler.

In conclusion, although Boralex 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 carbon dioxide ("CO<sub>2</sub>") emission quota market in France, and the Renewable Energy Certificates ("RECs") market and Forward Capacity Market in the United States.

(For more information on quarterly changes in Boralex's results for the past two years, please see *Selected Quarterly Information* presented as additional information after this Management's Discussion and Analysis.)

**SUMMARY OF CONSOLIDATED INFORMATION FOR THE PAST THREE FISCAL YEARS**

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

Fiscal years ended December 31	2006	2005	2004 <sup>(1)(2)</sup>
	(12 MONTHS)	(12 MONTHS)	(15 MONTHS)
Revenue from energy sales	120,002	108,696	91,362 <sup>(3)</sup>
EBITDA	42,822	34,084	12,906 <sup>(3)</sup>
Net earnings (net loss)	15,020	21,088	(1,362)
per share (basic)	\$0.50	\$0.70	\$(0.05)
per share (diluted)	\$0.49	\$0.70	\$(0.05)
Weighted average number of shares outstanding (basic)	30,033,885	29,986,994	29,913,139

**DATA RELATED TO THE BALANCE SHEET**

As at December 31	2006	2005	2004
Total assets	478,383	429,515	273,888
Total debt <sup>(4)</sup>	234,328	203,849	70,732
Shareholders' equity	183,602	165,211	150,805

(1) Certain data from fiscal 2004 were restated to reflect the presentation adopted during fiscal 2006.

(2) In 2004, the Corporation changed its fiscal year end from September 30 to December 31. As a result, the fiscal year ended December 31, 2004 contained 15 months, or five quarters.

(3) From continuing operations, that is, excluding revenue and EBITDA for the wood-residue thermal power stations located in Athens, Maine, sold on May 5, 2004.

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



#### HIGHLIGHTS OF THE LAST TWO FISCAL YEARS

The power stations in Stratton, Maine and in Chateaugay, New York qualified for the Connecticut and New York states REC markets

In recent years, Boralex has sought to position some of its wood-residue power stations so that they can trade in the emerging REC markets in the United States. Starting with its facility in Stratton, Maine, it completed investments of about \$10 million by the end of 2004 in order to qualify the plant as a renewable energy producer with the state of Connecticut, so that it could receive, for each megawatthour ("MWh") produced, a premium over and above the base electricity price. The new equipment started operating in the last week of 2004, and January 1, 2005 marked the start of Stratton's REC-qualified production.

RECs are officially awarded each quarter, at a rate of one for each MWh produced, if the average level of atmospheric emissions is maintained below the quarterly regulatory limit. The minimum quantity of green energy required from electricity distributors in Connecticut is based on a scale that will rise annually from 2% in 2006 to 7% in 2010.

In 2005, the Stratton power station reported revenue of \$8.1 million from REC sales. The growth in Boralex's consolidated results between fiscal 2004 and 2005 is largely due to REC sales, higher electricity prices on the open market in the northeastern United States in 2005 and U.S. tax credits for the generation of renewable energy by wood-residue power stations.

As management anticipated, in 2006, the emerging RECs market in Connecticut experienced a transition period in which supply exceeded demand, which led to a temporary drop in prices. Given this situation, Stratton sold only part of its 2006 production during 2006, generating sales of about \$3.9 million. The decline in the Corporation's 2006 net earnings compared to 2005 is largely due to the weakness in the REC market, combined with lower electricity prices on the open market in the northeastern U.S., higher wood-residue costs and a major upgrade at Stratton. However, demand and prices in the Connecticut REC market rose starting in the fourth quarter of 2006 and this positive trend should continue in 2007. Thus, in addition to signing firm contracts to sell most of the RECs it plans to produce during 2007, Stratton has also signed firm contracts for part of its production in 2008 and 2009. To date, these agreements represent revenue of more than US\$13 million.

In February 2006, the Chateaugay power station qualified for the REC program in New York State, which operates differently from the market in Connecticut. Chateaugay negotiated

and signed a 10-year contract with the Connecticut government 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. Boralex is currently evaluating other REC markets in New England to eventually qualify other power stations.

#### Renewable Energy Tax Credits for Wood-residue Facilities in the United States

Following the *American Jobs Creation Act* passed by the U.S. government, and starting in 2005, Boralex's wood-residue thermal power stations can benefit, based on their generation of electricity, from tax credits that are non-refundable, but 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 slated 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. That factor was set at US\$9 per MWh for 2005 and US\$10 per MWh for 2006. In 2006, Boralex recognized \$10.6 million of these credits (\$11.0 million in 2005) as an offset to operating expenses of the wood-residue thermal power stations, as recommended in Section 3805 of the CICA Handbook.

#### Monetization of U.S. Tax Credits

On December 1, 2006, Boralex's U.S. subsidiary, Boralex Industries Inc., closed a transaction with investors for the monetization of U.S. renewable energy production tax credits (described in the previous paragraph) to which its wood-residue thermal power stations will be entitled until 2009. This transaction involved the transfer to a group of investors of indirect equity interests in some of the U.S. wood-residue thermal power stations, and the receipt by Boralex of 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 a proportion of the actual amount of the tax credits earned by the power stations under the monetization program. In the Corporation's consolidated balance sheet, the cash consideration received in December 2006 appears as a liability under *Deferred revenue*, which will be incrementally recognized as revenue in the consolidated statement of earnings as the tax credits are earned.

Under this transaction, the Corporation retains its full authority over the management of the power stations pursuant to an operation and maintenance agreement, and also has call rights to buy back the wood-residue assets at certain times and for certain amounts, exercisable following final repayment of the contingent note. One of the main purpose of the monetization transaction was to build up the working capital of Boralex's U.S. subsidiary so as to provide greater financial flexibility for its continuing operations and investment projects.

### Expansion Projects

In December 2005, Boralex commissioned three new wind power sites, through its subsidiary 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 Massif Central. One of them, in the Plateau d'Ally in the Haute-Loire, has 26 wind turbines, each with a capacity of 1.5 MW. The other, in the Plateau de Cham de Cham Longe, in Ardèche, has twelve 1.5 MW wind turbines. To develop these two sites, in which Boralex originally had a 95% interest, Boralex invested \$115 million financed in large part by a major French bank. In the second quarter of 2006, Boralex purchased the remaining 5% from the minority shareholders, for \$1.0 million. The third wind farm built in 2005, which is wholly owned by the Corporation, has an installed capacity of 8 MW and is located in Plouguin, in Brittany. It required an investment of \$14.9 million and was partially financed by a major French bank. These three sites raised Boralex's 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 2006.

On July 22, 2005, to support its growth in France, the Corporation arranged a €190 million master agreement with a French bank. This will provide Boralex with the cash it requires to finance new projects as opportunities arise in France.

On December 14, 2005, Boralex completed its acquisition of the shares of Éoliennes de la Citadelle S.A.S., which holds

the building and operating permits for a 12 MW wind farm in the communes of Saint-Agrève and de Desaignes in Ardèche, France. This farm was initially slated to start operating in the fourth quarter of 2006, but start-up was postponed to June, 2007 due to delayed equipment deliveries by the supplier. The farm will have six 2 MW wind turbines and all power will be sold to EDF under 15-year contracts. However, an application to increase its capacity to 14 MW is in the process of being authorized. The financing for this project comes under the master agreement signed in July 2005.

In the third quarter of 2006, Boralex purchased the 35% interest held by minority shareholders of the Avignonet-Lauragais wind farm for \$2.2 million. An application to increase the site's installed capacity is in the process of being authorized.

On October 11, 2005, Boralex and its partners Gaz Métro and Séminaire de Québec announced that they had signed an exclusive agreement to assess, develop and operate, if possible, a wind power site of more than 400 MW on the Seigneurie de Beaupré lands located in the Côte-de-Beaupré and Charlevoix regions in Québec, and owned by the Séminaire de Québec. In 2007, this project will be submitted in response to Hydro-Québec Distribution's 2005 call for bids for an additional 2,000 MW. The territory under study is far from inhabited areas, close to power transmission lines and currently being exploited for its timber resources. In 2005 and 2006, Boralex installed a dozen wind-reading units on the Seigneurie lands to gather data and establish the wind power potential of the area. By December 31, 2006, there were 15 months of wind-reading accumulated. To date, the data gathered and the various studies conducted (including environmental, landscape and sound studies), confirm the site's potential.

On December 5, 2006, Boralex acquired a wood-residue power station with an installed capacity of 18 MW, located in Stacyville, Maine. As at January 1<sup>st</sup>, 2007, its electricity contract was renewed for a two-month period. Boralex bought the plant in order to realize operational synergies. Boralex will periodically evaluate the strategic options for this power station.

### CO<sub>2</sub> Quotas in France

Following adoption of the Kyoto Protocol in Europe, the European Union set up a mechanism in 2005 wherein companies that use fossil fuels are assigned a CO<sub>2</sub> emission quota. On the reporting date, the company must show that its quota is sufficient to cover its atmospheric emissions during the previous year. To comply with these 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. Under current regulations, each company's quota will be re-evaluated in 2008.

Because Boralex's natural gas-fired power station in Blendecques, France interrupted its cogeneration activities for part of 2005 and 2006 due to the high price of natural gas, the facility had excess CO<sub>2</sub> quota. Part of that quota was sold in 2005, generating revenue of about \$1 million. In 2006, in addition to selling its excess CO<sub>2</sub> quota for the year, the plant proceeded with the forward sale of its anticipated excess quota for 2007, generating revenue of \$3.4 million for 2006.

### Long-Term Refinancing of Corporate Operating Credit

On January 27, 2006, Boralex announced that it had concluded long-term financing of \$85 million to replace the \$65 million corporate line of credit arranged in 2004. The initial term of the new revolving credit is three years, with two one-year renewal options. 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, which was included on the Corporation's consolidated balance sheet at December 31, 2005, is to provide Boralex with greater financial flexibility in order to pursue its growth.

On October 25, 2006, Boralex announced that it was pursuing a US\$80 million debt financing for its U.S. subsidiary, intended primarily to help balance the Corporation's financial structure on a geographical basis. Given the more favourable trends in the U.S. market in the past few months, especially in the RECs market, management is still assessing the suitability and terms of this potential financing.

### SELECTED CONSOLIDATED INFORMATION FOR QUARTERS AND YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	THREE MONTHS ENDED		FISCAL YEARS ENDED	
	DECEMBER 31 2006	DECEMBER 31 2005	DECEMBER 31 2006	DECEMBER 31 2005
<b>Revenue from energy sales</b>				
Hydroelectric power stations	2,867	3,440	10,939	9,962
Wood-residue thermal power stations	19,891	20,511	71,126	78,474
Natural gas thermal power station	4,954	4,233	14,763	13,944
Wind power sites	7,727	2,122	23,174	6,316
<b>Total</b>	<b>35,439</b>	<b>30,306</b>	<b>120,002</b>	<b>108,696</b>
<b>EBITDA</b>				
Hydroelectric power stations	1,974	2,251	7,481	6,453
Wood-residue thermal power stations	1,167	4,366	5,586	16,904
Natural gas thermal power station	1,322	885	5,405	2,700
Wind power sites	6,782	916	19,766	4,148
Corporate and eliminations	715	1,263	4,584	3,879
<b>Total</b>	<b>11,960</b>	<b>9,681</b>	<b>42,822</b>	<b>34,084</b>
<b>Net earnings</b>	<b>4,713</b>	<b>9,362</b>	<b>15,020</b>	<b>21,088</b>
per share (basic)	\$0.16	\$0.31	\$0.50	\$0.70
per share (diluted)	\$0.15	\$0.31	\$0.49	\$0.70
Weighted average number of shares outstanding (basic)	30,049,586	29,987,978	30,033,885	29,986,994

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

To assess the operating performance of its assets and reporting segments, Boralex uses EBITDA, which is not a performance measurement under GAAP. Management believes that EBITDA is a widely accepted financial indicator used by investors to assess the performance of a company, and its ability to generate cash through operations. However, since EBITDA is not

a GAAP performance measurement, it may not be comparable to similarly named measures used by other companies. Investors should not use EBITDA as an alternative criterion for net earnings, nor as an indicator of operating results or cash flows, nor 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:

(in thousands of dollars)	THREE MONTHS ENDED		FISCAL YEARS ENDED	
	DECEMBER 31 2006	DECEMBER 31 2005	DECEMBER 31 2006	DECEMBER 31 2005
Net earnings	4,713	9,362	15,020	21,088
Non-controlling interest	42	(27)	168	98
Income tax recovery	(2,949)	(4,515)	(5,774)	(2,560)
Financial expenses	3,725	1,336	12,528	4,421
Amortization	6,429	3,525	20,880	11,037
<b>EBITDA</b>	<b>11,960</b>	<b>9,681</b>	<b>42,822</b>	<b>34,084</b>

**ANALYSIS OF OPERATING RESULTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

The table below shows the main variances between revenue and EBITDA for 2006 and 2005.

**Analysis of major variances:**

(in millions of dollars)	REVENUE FROM ENERGY SALES	EBITDA
<b>Fiscal year ended December 31, 2005</b>	<b>108.7</b>	<b>34.1</b>
Start-up	18.4	15.4
Volume	1.0	2.1
Pricing	0.9	0.9
RECs	(1.9)	(1.9)
CO <sub>2</sub> quota	-	2.3
Translation of self-sustaining foreign operations	(6.8)	(1.7)
Tax credits	-	0.3
Fuel costs	-	(8.3)
Maintenance and repairs	-	(0.3)
Share of the Fund's results	-	1.1
Other	(0.3)	(1.2)
<b>Fiscal year ended December 31, 2006</b>	<b>120.0</b>	<b>42.8</b>

### Revenue from Energy Sales

Boralex's revenue from energy sales grew \$11.3 million or 10% to \$120.0 million for the year ended December 31, 2006. The increase in the Canadian dollar versus the US dollar and Euro had an adverse \$6.8 million impact on 2006 revenue; otherwise, growth would have been close to 17%.

Revenue growth stems mainly from the following:

- >> production volume increased 14% to 1,377,053 MWh in 2006 compared to 1,205,324 MWh in 2005, which generated additional revenue of \$19.4 million. More than 90% of that increase is due to the start up, at the very end of fiscal 2005, of three new wind power sites at Massif Central and Plouguin, France. The remainder of the increase stems mainly from higher productivity by the hydroelectric facilities in the northeastern United States, due to favourable hydrology for most of the year; the acquisition in December of the wood-residue power station in Stacyville, Maine; and better productivity at the existing wind farms; and
- >> for the period as a whole, the average selling price increased slightly, generating additional revenue of \$0.9 million. The natural gas cogeneration plant benefited the most from higher steam and electricity prices in 2006. On the other hand, the hydroelectric and wood-residue power stations were affected by a decrease in their average selling price, particularly in the third and fourth quarters. Indeed, the second half of the year saw a significant drop in electricity prices in the northeastern U.S. markets compared to the higher levels of the summer and fall of 2005, when demand rose significantly because of a particularly hot summer, followed by two major hurricanes in the southern United States.

Apart from the unfavourable impact of currency fluctuations, consolidated revenue for 2006 was negatively influenced by a \$1.9 million decrease in REC sales in the wood-residue segment, caused by price weaknesses in the REC market in the first three quarters of 2006.

(A more detailed analysis of changes in revenue for each segment is presented in *Analysis of Segmented Results for the Fiscal Year Ended December 31, 2006*.)

### Other Revenue

Boralex reported \$20.3 million in revenue other than energy sales in 2006, compared to \$15.8 million in 2005. The increase of \$4.5 million or 28% is explained by:

- >> a \$2.3 million increase in the sale of excess CO<sub>2</sub> quota by

the natural gas facility in France, including the forward sale of its anticipated excess for 2007;

- >> a \$1.1 million increase in Boralex's share of the Fund's results, since the Fund's hydroelectric power stations benefited from good hydrology in 2006; and
- >> the recording of various other revenues, including compensation from a wind-power equipment supplier for start-up delays caused by manufacturing defects, and the insurance payment related to the equipment failure at the Sissonville hydroelectric power station in the fourth quarter of 2005.

### EBITDA

Consolidated EBITDA for fiscal 2006 amounted to \$42.8 million compared to \$34.1 million a year earlier, for a solid gain of \$8.7 million or 26%. The EBITDA margin as a percentage of revenue was 36% compared to 31% the previous year. Note that without the adverse \$1.7 million impact of currency fluctuations, consolidated EBITDA would have increased by 30%.

This performance was due to four main factors:

- >> higher production volume and revenue from energy sales added \$17.5 million to EBITDA, stemming mainly from the start-up of the new wind farms and better productivity from the hydroelectric power stations;
- >> sales of excess CO<sub>2</sub> quota from the natural gas cogeneration power station in France, including the sale of anticipated excess quota of 2007, generated additional EBITDA of \$2.3 million compared to 2005;
- >> the rise in average selling prices had a direct impact on EBITDA, adding \$0.9 million; and
- >> Boralex's higher share in the Fund's results resulted in additional EBITDA of \$1.1 million.

On the other hand, in addition to the impact of currency fluctuations, EBITDA was affected by a number of adverse factors, primarily:

- >> a total increase of \$8.3 million in the cost of fuel, attributable mainly to the wood-residue segment and, to a lesser extent, to the increase in natural gas costs for the natural gas power station in France. The higher wood-residue cost is explained by two main factors: the rising cost of oil, which has a direct impact on fuel transportation costs, and the Corporation's production strategy, whereby the wood-residue power stations are now using a better quality—and therefore more expensive—fuel than in the past.

However, this strategy produces significant savings by enabling the power stations to achieve a better burn rate and by reducing wear-and-tear on equipment, which will translate into lower maintenance and repair costs in the medium term; and

>> a \$1.9 million decrease in RECs sales, which has a direct impact on EBITDA.

A number of lesser factors also affected consolidated EBITDA, including an increase in U.S. renewable energy production tax credits due to an increase of the rate to \$10 per MWh; a slight increase in maintenance and repair costs, notably in the wood-residue segment; and a \$0.3 million tax and fee adjustment following an agreement with the government of Québec on provincial tax regulations.

(A more detailed analysis of changes in EBITDA in each segment is presented in *Analysis of Segmented Results for the Fiscal Year Ended December 31, 2006*.)

#### Amortization, Financial Expenses, and Earnings Before Taxes

Amortization expenses totalled \$20.9 million in 2006, compared to \$11.0 million in 2005. This increase is due mainly to the start-up of the Massif Central and Plouguin wind farms in December 2005, the investments in the second half of 2005 to improve the availability of the wood-residue thermal power stations, and the various capital investments made during fiscal 2006.

The debt-financing of investments over the past two fiscal years also accounts for the \$8.1 million increase in financial expenses, which rose from \$4.4 million in 2005 to \$12.5 million in 2006. The start-up of the Massif Central and Plouguin facilities, in particular, required close to \$137 million in additional financing bearing interest at about 5%, while investments in the wood-residue thermal power stations in 2005 and 2006 were financed with Boralex's operating credit.

Including the combined increase of \$18.0 million in amortization and financial expenses in 2006, Boralex posted a decrease of \$9.2 million or 49% in *Earnings before income taxes*, which totalled \$9.4 million in 2006 versus \$18.6 million in 2005. Generally speaking, this decrease was due to the lower profit margins experienced by the wood-residue thermal power stations due to lower market prices for electricity and lower REC sales, combined with higher fuel costs.

#### Income Tax Recovery

Boralex recognized an income tax recovery of \$5.8 million in 2006, compared to \$2.6 million a year earlier. The larger recovery for 2006 is due mainly to the following factors:

- >> lower statutory tax rates in Canada (\$2.3 million);
- >> adjustment during the year of certain reserves for tax risks that did not materialize; and
- >> a larger than anticipated proportion of dividend income in distributions received from the Fund. Dividends from Canadian corporations are not taxable, therefore significantly reducing the related tax expense for 2006.

Taking all jurisdictions into account, Boralex's combined statutory tax rate is normally approximately 35%. However, the dividend portion of distributions from the Fund may vary depending on the amounts of U.S. dollars the Fund brings into Canada to pay its distributions. This factor could significantly reduce Boralex's consolidated tax rate.

#### Net Earnings

Boralex ended fiscal 2006 with net earnings of \$15.0 million or \$0.49 per common share on a diluted basis, compared to \$21.1 million or \$0.70 per share in 2005. The weighted average number of shares outstanding remained relatively unchanged at approximately 30 million.

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In summary, Boralex reported significant growth in revenue and EBITDA in 2006 due to major expansion in the wind power segment, a good performance by the hydroelectric power stations and the sale of excess CO<sub>2</sub> quota by the natural gas cogeneration plant in France. However, profitability in the wood-residue segment was adversely affected by a series of factors, including the higher cost of wood-residue fuel, the decline in electricity prices, the temporary weakness in the REC market in Connecticut, and the extended shutdown of Stratton due to successive equipment failures. The significant decrease in results for this segment was such that Boralex's higher consolidated EBITDA could not absorb the increase in amortization and financing expenses resulting from the major expansion and upgrading of its asset base over the past two years.

However, since the fourth quarter of 2006, the REC market has picked up and new power sale agreements have been signed by some facilities, which indicates results in the wood-residue segment should improve. This, combined with the optimal contribution from the wind farms in France, leads management to expect an increase in the Corporation's consolidated results for fiscal 2007.

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#### ANALYSIS OF SEGMENTED RESULTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

##### Segment Breakdown for Revenue from the Sale of Energy and EBITDA

The major change in the composition of consolidated revenue and EBITDA during the year ended December 31, 2006 was the expansion of the wind power segment, whose contribution to energy revenue rose from 6% in 2005 to 19% in 2006. As a result, although wood-revenue production remains Boralex's most important segment, its contribution to consolidated revenue declined from 72% in 2005 to 60% in 2006. The third revenue stream is the natural gas cogeneration plant,

which generated 12% of consolidated revenue in 2006, versus 13% in 2005. Finally, the hydroelectric segment accounted for 9% of consolidated revenue, the same percentage as in 2005.

In terms of operating profitability, the largest contribution came from the wind power segment, which generated 46% of consolidated EBITDA for fiscal 2006, compared to 12% in 2005. Second is the hydroelectric segment, whose contribution to consolidated EBITDA was 17%, versus 19% in 2005. The contribution from the wood-residue segment dropped from 50% in 2005 to 13% in 2006, while that of the natural gas plant was 13%, compared to 8% a year earlier.

#### Wind Power Sites

##### Analysis of major variances:

(in millions of dollars)

	REVENUE FROM ENERGY SALES	EBITDA
<b>Year ended December 31, 2005</b>	<b>6.3</b>	<b>4.1</b>
Start-up	17.2	15.1
Volume	0.3	0.3
Translation of self-sustaining foreign operations	(0.3)	(0.3)
Other	(0.3)	0.6
<b>Year ended December 31, 2006</b>	<b>23.2</b>	<b>19.8</b>

During fiscal 2006, revenue from the wind power segment almost quadrupled to \$23.2 million, compared to \$6.3 million a year earlier. The segment generated 189,964 MWh in 2006, versus 45,695 MWh in 2005. This is largely due to the start-up of two farms in Massif Central (57 MW) and one in Plouguin (8 MW), which were ramped up satisfactorily in 2006, as well as an increase in the availability of the existing wind power sites due to increasingly effective and proactive technical management.

However, in addition to more intense frost conditions than usual in the first quarter, wind conditions in the first half of 2006 were weaker than a year earlier, particularly for Nibas,

Chépy and Avignonet-Lauragais. They improved in the third quarter and even more so in the fourth quarter, such that wind conditions for 2006 as a whole were comparable to those in 2005 at Avignonet-Lauragais and better than in 2005 at Chépy and Nibas.

The wind power segment reported EBITDA of \$19.8 million in 2006, almost five times higher than the \$4.1 million reported in 2005. Excluding the fluctuations in the Canadian dollar versus the euro, EBITDA would have been \$20.1 million. This excellent performance is primarily due to the increase in production volume and sales.

## Hydroelectric Power Stations

## Analysis of major variances:

(in millions of dollars)

	REVENUE FROM ENERGY SALES	EBITDA
<b>Year ended December 31, 2005</b>	<b>10.0</b>	<b>6.5</b>
Volume	2.0	2.0
Pricing	(0.6)	(0.6)
Translation of self-sustaining foreign operations	(0.6)	(0.4)
Maintenance and repairs	-	0.3
Other	0.1	(0.3)
<b>Year ended December 31, 2006</b>	<b>10.9</b>	<b>7.5</b>

## Historical average for hydroelectric power generation

(in MWh)\*

Fourth quarter	30,440
Full year	113,322

(\*) The historical average is calculated using all generation data for each hydroelectric power station, to the end of Boralex previous fiscal year.

For fiscal 2006, Boralex's hydroelectric power stations reported revenue of \$10.9 million compared to \$10.0 million in 2005, up 9%. Excluding the adverse impact of the currency translation on revenue from the U.S. power stations, actual growth would have been about 15%. This performance is mainly due to good water flows in the northeastern U.S. during much of 2006. Boralex's hydroelectric power stations thus generated 138,518 MWh in 2006, which is not only 26% higher than the 109,761 MWh generated in 2005, but also exceeds the annual historical averages by 22%. In fact, in 2006, the five U.S. hydroelectric power stations recorded their best combined power generation since they were built in the late 1980's.

Note that the Warrensburg facility was offline for 15 weeks due to an equipment failure in August 2006. Management expects a favourable settlement from insurers to offset this shortfall, but no amount has been recognized for the time being. On the other hand, in the fourth quarter of 2006, Boralex received compensation from its insurers for a mechanical failure that interrupted service from the Sissonville power station for several weeks in 2005.

Furthermore, in addition to the unfavourable impact of currency fluctuations, revenue in the hydroelectric segment was down \$0.6 million due to lower electricity prices on the

northeastern U.S. open market. The average price obtained by the four U.S. hydroelectric power stations that trade on the open market was down 13% in 2006 compared to 2005. The decrease in the average price was particularly marked in the second half of the year compared to the high level in 2005. Note that the decline in electricity prices on the U.S. market in the past year is due to, among other things, lower natural gas prices, which strongly correlate with electricity prices. In addition, energy prices on the U.S. market were strongly inflated in the second and third quarters of 2005, due to higher demand related to the particularly hot summer and the effects on the market of the two major hurricanes that hit the Gulf of Mexico in September 2005.

Annual EBITDA for the hydroelectric power stations totalled \$7.5 million, up 15% over \$6.5 million in 2005. Had the exchange rate remained constant, the increase in EBITDA would have been closer to 22%. Furthermore, if a positive adjustment of about \$1 million in certain provisions and estimates is excluded from 2005 results, growth in EBITDA rises to 36%. The improvement is almost entirely due to increased production and lower maintenance costs. On the other hand, the lower average selling price for this segment resulted in a \$0.6 million decrease in profitability.



## Wood-Residue Power Stations

## Analysis of major variances:

(in millions of dollars)

	REVENUE FROM ENERGY SALES	EBITDA
<b>Year ended December 31, 2005</b>	<b>78.5</b>	<b>16.9</b>
Start-up	1.2	0.4
Volume	(0.8)	(0.3)
Pricing	(0.9)	(0.9)
RECs	(1.9)	(1.9)
Capacity premium	0.1	0.1
Translation of self-sustaining foreign operations	(5.1)	(1.1)
Tax credits	-	0.3
Fuel costs	-	(6.9)
Maintenance and repairs	-	(0.6)
Other	-	(0.4)
<b>Year ended December 31, 2006</b>	<b>71.1</b>	<b>5.6</b>

The wood-residue segment reported a \$7.4 million or 9% decrease in energy sales, which stood at \$71.1 million, compared to \$78.5 million in 2005. However, excluding a \$5.1 million decrease due to currency translation, revenue was down only 3%.

Power generation in this segment was relatively stable at 1,010,206 MWh in 2006, compared to 1,012,540 MWh in 2005. The addition of the new Stacyville plant in December 2006 offset the lower production at the other power stations, which primarily resulted from upgrading at the Livermore Falls facility in the fourth quarter, certain deliberate shutdowns over the course of the year due to lower electricity selling prices, and the extended shutdown of Stratton which experienced successive failures in its boiler tubes, leading to the equivalent of 75 days of downtime in the second quarter. During that time, Boralex inspected all of the boiler tubes and replaced those that showed signs of weakness, to prevent a recurrence. The Corporation is discussing this event with its insurer. Note also that the Fort Fairfield power station was struck by lightning, which led to a 38-day shutdown in the third quarter. As this event is covered by its insurers, it will not have a significant adverse financial impact on the Corporation.

Overall, productivity in this segment was satisfactory in 2006, as facilities now have more reliable access to wood residues, due to the supply strategy adopted by Boralex since 2004. Power generation in 2006 also benefited from Ashland's greater availability since it was in its start-up phase in 2005.

Apart from currency fluctuations and the \$0.9 million

decrease due to lower average selling prices, the lower energy revenue in this segment stems primarily from the \$1.9 million decrease in REC sales (excluding the impact of the exchange rate fluctuation of \$0.6 million). REC sales amounted to \$5.6 million (US\$ 4.8 million) in 2006 (\$3.9 million from Stratton and \$1.7 million from Chateaugay), compared to REC sales of \$8.1 million (US\$ 6.7 million) by Stratton in 2005. Given the price weaknesses in Connecticut's REC market during most of 2006, and since Boralex expected conditions in this market to improve in 2007, it decided to delay until 2007 the sale of part of the RECs produced by Stratton in 2006. (Boralex has until June 15, 2007 to sell the RECs produced in 2006.) The market did start to improve at the end of 2006. As a result, Stratton was able to sell most of its RECs from 2006. It also signed firm contracts for most of its anticipated REC production in 2007. After year end, firm contracts were also signed to sell part of Stratton's anticipated REC production for 2008 and 2009.

EBITDA in the wood-residue segment was down \$11.3 million, or 67% in 2006 compared to 2005. This was mainly due to the \$6.9 million increase in the cost of wood-residue supplies, caused primarily by higher transportation costs (related to higher oil prices). However, the higher-quality fuel helped improve the burn rate, by reducing the amount of fuel required to generate each MWh. Other factors that contributed to lower profitability in this segment were the lower REC sales, the lower average selling price and higher maintenance costs, due to the preventive replacement of equipment at Livermore Falls in the fourth quarter.

## Natural-gas Cogeneration Power Station

## Analysis of major variances:

(in millions of dollars)

	REVENUE FROM ENERGY SALES	EBITDA
<b>Year ended December 31, 2005</b>	<b>13.9</b>	<b>2.7</b>
Volume	(0.6)	0.2
Pricing	2.2	2.2
CO <sub>2</sub> quota	-	2.3
Translation of self-sustaining foreign operations	(0.8)	-
Natural gas cost	-	(1.4)
Other	0.1	(0.6)
<b>Year ended December 31, 2006</b>	<b>14.8</b>	<b>5.4</b>

For the year ended December 31, 2006, revenue from sales by the Blendecques natural gas plant rose 6% to \$14.8 million compared to \$13.9 million in 2005. The rise in the Canadian dollar versus the euro reduced revenue by \$0.8 million due to translation into Canadian dollars. Excluding that impact, revenue would have grown by 12%.

As it did in 2005, Blendecques interrupted its cogeneration activities from April 1 to October 31, 2006 due to the high cost of natural gas it uses as fuel. During that period, the plant continued to serve its steam client from an auxiliary boiler. In fiscal 2006, it generated 38,365 MWh of electricity, compared

to 37,328 MWh in 2005. However, it produced slightly less steam. The shortfall was largely offset by higher steam and electricity prices, the main reasons for revenue growth in 2006.

In addition to increasing revenue from the sale of its excess CO<sub>2</sub> quota by \$2.3 million, to a total of \$3.4 million (including the forward sale of its anticipated excess quota for 2007), Blendecques's plant also benefited from higher prices, which added \$2.2 million to its EBITDA. These two factors more than offset the \$1.4 million increase in fuel costs. As a result, EBITDA for the natural gas cogeneration plant doubled, from \$2.7 million in 2005 to \$5.4 million in 2006.

## ANALYSIS OF FOURTH QUARTER OPERATING RESULTS FOR FISCAL 2006

The table below shows the major variances between revenue from energy sales and EBITDA for the three-month periods ended December 31, 2006 and 2005.

## Analysis of major variances:

(in millions of dollars)

	REVENUE FROM ENERGY SALES	EBITDA
<b>Three-month period ended December 31, 2005</b>	<b>30.3</b>	<b>9.7</b>
Start-up	6.8	5.6
Volume	(0.5)	0.6
Pricing	(2.7)	(2.7)
RECs	2.2	2.2
CO <sub>2</sub> quota	-	0.2
Translation of self-sustaining foreign operations	(0.7)	-
Tax credits	-	(0.6)
Fuel costs	-	(0.4)
Maintenance and repairs	-	(1.9)
Share of the Fund's results	-	(0.2)
Other	-	(0.5)
<b>Three-month period December 31, 2006</b>	<b>35.4</b>	<b>12.0</b>

### Revenue from Energy Sales

Borex's consolidated revenue from energy sales totalled \$35.4 million in the fourth quarter of 2006 compared to \$30.3 million in the same quarter of 2005, which represents an increase of \$5.1 million or 17%. Note that the rise in the Canadian dollar versus the U.S. dollar and euro had a lower impact than in preceding quarters, reducing quarterly revenue from operations in the United States and France by \$0.7 million. Excluding currency fluctuations, revenue would have grown about 19%. As described in the summary of segmented results below, the increase in Borex's consolidated fourth quarter revenue derives mainly from the wind power segment, where revenue almost tripled thanks to the contribution of the three Massif Central and Plouguin sites. Revenue reported by the natural gas cogeneration plant also rose slightly, while revenue from the hydroelectric and wood-residue segments was down slightly, mainly due to lower electricity prices on the northeastern U.S. open market.

Overall, the increase in Borex's consolidated revenue in the fourth quarter of 2006 compared to the same period in 2005 is due to two factors: the Corporation's expanded asset base since the previous year and the sale of RECs on the Connecticut and New York State markets.

- >> First, the new sites generated an additional \$6.8 million in revenue, including about \$5.6 million from the Massif Central and Plouguin sites which started up in December, 2005 and were gradually ramped up in 2006. The remaining \$1.2 million is due to the December 2006 acquisition of the Stacyville wood-residue facility, which operated for a month under a short-term power sale agreement. These additions more than offset the slight decrease in power generation by the other wood-residue plants, which was mainly caused by the regular maintenance work at Livermore Falls, which was performed in the third quarter in 2005. In total, Borex's power generation was up 16% in the fourth quarter, from 333,620 MWh in 2005 to 387,495 MWh in 2006.
  - >> Second, Borex received \$2.2 million from the sale of RECs in the fourth quarter of 2006, while no REC sales were booked in the fourth quarter of 2005. The Chateaugay power station contributed \$1.7 million to REC sales in the fourth quarter of 2006, having finalized its agreement with the state of New York, which took effect retroactively to April 1, 2006. The remaining \$0.5 million comes from Stratton's sale of part of its REC production for 2006, due to improved market conditions in Connecticut.
- On the other hand, in addition to the \$0.7 million revenue decrease caused by currency fluctuations, consolidated revenue in the fourth quarter was affected significantly by about \$2.7 million due to lower average electricity prices obtained by the U.S. facilities, notably the wood-residue thermal power stations.
- On a segmented basis, changes in revenue for the fourth quarter of 2006 were as follows:
- >> **Wind power sector** almost quadrupled its quarterly revenue, which rose from \$2.1 million in 2005 to \$7.7 million in 2006, due primarily to the start-up of the new Massif Central and Plouguin sites. To a lesser extent, this segment also benefited from higher power generation by existing sites, given the combined impact of good wind conditions during the period and improved productivity by the segment as a whole in France over the past year. Power generation in this segment thus rose from 14,083 MWh in the fourth quarter of 2005, to 61,922 MWh in the fourth quarter of 2006.
  - >> For the three-month period ended December 31, 2006, the **hydroelectric power stations** generated 13% more power than a year earlier, exceeding the historical fourth-quarter average for this segment by 24%. The segment reported 37,865 MWh in the fourth quarter of 2006, compared to 33,640 MWh a year earlier, despite an equipment breakdown at Warrensburg that took it offline for 15 weeks. Management believes that the shortfall will be met by insurance. Higher production volume is due to good water flows and the fact that Sissonville was down for several days in 2005 following an equipment failure. Despite the increased production, quarterly revenue for this segment declined \$0.5 million or 15% to \$2.9 million, from \$3.4 million a year earlier. The decrease is due to the lower average selling price resulting in part from lower natural gas prices, which are correlated with electricity prices, and partially offset by an increase in hydroelectric production in New England during the quarter.
  - >> Fourth-quarter revenue from the **wood-residue power stations** was down 3% or \$0.6 million. However, excluding the adverse impact of the Canadian/U.S. dollar exchange rate, quarterly revenue was up slightly. The facilities' average selling price was down, resulting in a \$2.3 million shortfall in revenue which was almost completely offset by \$2.2 million in REC sales by Chateaugay and Stratton. Power generation in this segment was relatively stable, totaling 272,100 MWh in 2006, compared to 271,049 MWh in 2005. The addition of Stacyville in December mitigated

the lower production by Livermore Falls, which did semi-annual maintenance work in the fourth quarter of 2006 instead of in the third quarter as in 2005.

>> Revenue from the **natural gas cogeneration plant** grew by about \$0.7 million or 17%, mainly due to higher electricity and steam prices and a slightly positive impact from currency exchange. As in 2005, this facility interrupted its cogeneration activities from April 1 to October 31 because of the high cost of natural gas, while continuing to supply its steam client from an auxiliary boiler. It thus only reported power sales in the last two months of the fourth quarters in 2006 and 2005. As a result, production was relatively stable, at 15,608 MWh in 2006, compared to 14,848 MWh in the fourth quarter of 2005.

#### Other Revenue

In the fourth quarter, Boralex reported \$4.5 million in revenue other than revenue from the sale of energy, compared to \$3.8 million a year earlier. The increase is due to various factors, including compensation from the wind turbine manufacturer for turbines that failed shortly after start-up in the first quarter, and the insurance settlement related to the equipment failure in the fourth quarter 2005 at the Sissonville hydroelectric power station. Note that the slight decrease in Boralex's share of the Fund's results in the fourth quarter stems mainly from currency fluctuations and higher income taxes related to the Fund's results.

#### EBITDA

Consolidated EBITDA of \$12.0 million for the fourth quarter was up \$2.3 million or 24% over EBITDA of \$9.7 million in the fourth quarter of 2005. This performance is primarily due to the marked increase in the contribution from the wind power segment, which, combined with the higher EBITDA from the natural gas cogeneration plant, helped offset the significant reduction in profitability by the wood-residue segment and the slightly lower profitability in the hydroelectric segment.

On a segmented basis, the changes in quarterly EBITDA were as follows:

>> EBITDA for the **wind power segment** jumped from \$0.9 million in 2005, to \$6.8 million in 2006, making the biggest contribution to Boralex's consolidated quarterly EBITDA. This performance derives mainly from the start-up of its three new sites, as well as higher power generation from its existing sites.

>> EBITDA for the **hydroelectric segment** was down

\$0.3 million, or 13%, to \$2.0 million, compared to \$2.3 million a year earlier, due mainly to lower average electricity prices.

>> EBITDA for the **wood-residue segment** was down \$3.2 million, from \$4.4 million in 2005 to \$1.2 million in 2006. The decrease stems mainly from two factors, which combined, lowered EBITDA by \$4.4 million: lower prices on the northeastern U.S. open market, and maintenance and upgrading costs incurred at Livermore Falls in the fourth quarter whereas they took place in the third quarter in 2005. Due to low electricity prices during the period, the Corporation took advantage of the time to preventively replace equipment in order to avoid future breakdowns. In addition, the tax credits for renewable energy production were lower because they were monetized at a slight discount starting in December 2006. Fuel costs did not have a significant impact on the wood-residue segment in the fourth quarter. The adverse impact of these factors was partially offset by the sale of RECs.

>> EBITDA for the **natural gas cogeneration plant** increased \$0.4 million, from \$0.9 million in 2005 to \$1.3 million in 2006, due to higher electricity and steam prices. In conjunction with favourable currency fluctuations, these factors more than compensated for the higher cost of natural gas.

#### Amortization, Financial Expenses and Income Taxes

Because of the investments of the past 12 months, primarily to start-up the Massif Central and Plouguin wind farms, Boralex's amortization expenses almost doubled to \$6.4 million in the fourth quarter of 2006, compared to \$3.5 million for the same period a year earlier. For the same reason, financial expenses increased by \$2.4 million to \$3.7 million in the fourth quarter of 2006.

Given the combined increase of \$5.3 million in amortization and financial expenses for the period, Boralex reported earnings before income taxes of \$1.8 million in 2006, compared to \$4.8 million a year earlier.

#### Income Tax Recovery

In the fourth quarter of 2006, Boralex recognized an income tax recovery of \$2.9 million compared to \$4.5 million for the same quarter in 2005. As discussed in the 2006 annual analysis, the Corporation benefited from a higher than anticipated percentage of dividends in the distribution it received from the Fund. Since Canadian corporations are not taxed on dividends from Canadian sources, the rate at which Boralex was taxed on that income was significantly reduced. Note that in the fourth quarter of 2005, Boralex decreased its provision for

tax risk by about \$4.4 million after realizing that certain tax risks would not materialize. Excluding these unusual items, and the effect of recognizing renewable energy income tax credits, the Corporation's combined income tax rate should be about 35%, which is the average of the American, French and Canadian rates (including provincial taxes).

#### Net Earnings

Borex thus closed the fourth quarter of 2006 with net earnings of \$4.7 million, or \$0.15 per share on a diluted basis compared to \$9.4 million, or \$0.31 per share, for the same quarter in 2005. The weighted average number of shares outstanding remained about the same for both periods at about 30 million.

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Borex reported a significant increase in revenue and operating income in the fourth quarter of 2006, primarily due to the strong expansion during the year in the wind power segment in France, combined with higher demand and prices in the U.S. REC markets. However, electricity prices in the northeastern U.S. were lower than the relatively high levels of 2005, resulting in lower operating profitability for the hydroelectric segment and, particularly, the wood-residue segments. Also, a major upgrade was carried out at one of the wood-residue power stations. Management believes that the REC markets in which two of its wood-residue power stations participate will continue to improve in future quarters. This should result in financial benefits for the Corporation, given its position as a leading producer of renewable energy in North America.

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#### ANALYSIS OF CASH FLOWS

##### Operating Activities

In the fourth quarter of 2006, cash flows from operations amounted to \$7.9 million versus \$10.1 million for the same quarter in 2005. The decrease was mainly due to lower net earnings. The change in non-cash working capital balances required cash assets of \$2.4 million, due mainly to the increase in accounts receivable. The latter included \$1.7 million in receivables from the sale of RECs by the Chateaugay power station. In the fourth quarter of 2005, the change in non-cash working capital balances required \$12.0 million, due, primarily, to the strong growth in the Corporation's activities during that period, which increased accounts receivable. As a result, operating activities in the fourth quarter of 2006 generated net cash of \$5.6 million, whereas in 2005 they required \$1.9 million.

For fiscal 2006 as a whole, cash flows from operations totalled \$24.5 million compared to \$26.2 million in 2005. The decrease is due to lower operating income in the wood-residue segment, which was not completely offset by the increase in operating earnings (after interest) from operations in France. The change in non-cash working capital balances required cash assets of \$10.7 million in 2006, primarily related to payments to start and complete various projects during the year, including final payments for construction of the Massif Central and Plouguin sites. The change in non-cash working capital balances required \$6.9 million in 2005, due in part to the strong growth in activities.

As a result, operating activities for fiscal 2006 generated net cash flows of \$13.8 million, compared to \$19.3 million in 2005.

##### Investing Activities

In the fourth quarter of 2006, Borex invested \$4.9 million, including \$3.6 million to acquire the wood-residue facility in Stacyville and \$1.5 million to purchase capital assets, acquired primarily to maintain the wood-residue power stations and continue current work on future wind farms. During the same period in 2005, the Corporation invested \$27.3 million, primarily to acquire, develop, and start-up the new wind farms in France.

For fiscal 2006 as a whole, Borex invested a total of \$33.7 million, compared to \$157.0 million in the previous year. The main investments of 2006 included some \$9.7 million for the expansion of the wind power segment in France, including the acquisition of capital assets associated primarily with the development of the St-Agrève wind farm (\$9.5 million), the repurchase of minority interests of the Massif Central and Avignonet-Lauragais projects (\$3.2 million), and the payment of reserve amounts required for the financing of the Massif Central projects (\$6.6 million). The balance was invested in the wood-residue segment, more specifically to acquire the Stacyville power station (\$3.6 million), to purchase rolling stock and production equipment as part of regular spring and fall maintenance (\$8.7 million), to purchase equipment to be leased to suppliers (\$2.2 million), and to repay \$0.9 million associated with this equipment.

In 2005, in addition to the acquisition and construction of the Massif Central and Plouguin wind sites (total investment of \$111.6 million), Boralex invested a net amount of \$22.2 million in its wood-residue power stations, which included regular maintenance, equipment upgrades to improve performance and the purchase of equipment to be leased to wood-residue suppliers.

### Financing Activities

During the fourth quarter of fiscal 2006, on December 1, 2006, the Corporation closed a major transaction with a U.S. investor involving the monetization of renewable energy production tax credits to which the U.S. wood-residue thermal power stations will be entitled up to 2009. As part of this transaction, Boralex received a first cash payment of \$16.7 million (US\$14.5 million). Among other things, this amount was used to finance the purchase of the Stacyville power station and to build up the working capital of Boralex's U.S. subsidiary. The monetization program also includes future payments of \$14.9 million (US\$12.8 million) contingent on the delivery of the tax credits. (See *Highlights of the Past Two Fiscal Years* for more detailed information.) The total financing cost associated with this transaction amounted to about \$5.8 million, of which \$4.4 million was paid out in the fourth quarter.

On the other hand, Boralex recorded a net reduction of \$3.4 million in long-term debt during the quarter. As a result, financing activities for the period generated total net cash assets of \$8.9 million. In the fourth quarter of 2005, this amount was \$30.3 million, as Boralex had drawn \$29.2 million on its long-term debt to build the sites at Massif Central and Plouguin, increased the use of bank loans and advances by \$6.2 million to upgrade its wood-residue power stations, and retired \$5.2 million of its long-term debt.

Taking into account the translation adjustment on cash and cash equivalents as well, fourth quarter cash flows generated total net cash assets of \$10.2 million.

For fiscal 2006 as a whole, financing activities generated cash assets of \$22.0 million (\$10.9 million of which came from the monetization transaction described above), compared to \$144.1 million in 2005 (\$136.1 million of which came from the increase in long-term debt to finance the new Massif Central and Plouguin wind farms).

On January 27, 2006, Boralex finalized an agreement for \$85 million in long-term financing to replace the revolving credit issued in 2004 for an initial amount of \$65 million. The new arrangement consists of a three-year revolving credit

facility with two one-year renewal options. Like the initial revolving credit, this credit is secured by Boralex's investment in the Fund, to a limit based on the market value of the Fund's trust units. Accordingly, amounts borrowed cannot exceed a percentage of the market value of the investment, or the lenders may demand repayment of a portion of the borrowed amounts. This instrument bears interest at a rate that varies with changes in the bankers' acceptance rate adjusted by a margin that varies with the ratio by which the investment in the Fund covers the debt.

During fiscal 2006, Boralex used this new rotating credit facility to retire \$40.8 million drawn on the previous line of credit. As well, Boralex began repaying the debt incurred for the Massif Central and Plouguin projects in regular instalments, for a total of \$11.2 million in 2006 (\$3.6 million in the fourth quarter). Boralex also drew the balance of its authorized loans for the Massif Central and Plouguin projects, for a total of \$11.6 million, and began drawing funds for the St-Agrève project, for a total of \$8.4 million (\$1.8 million in the fourth quarter). The amounts drawn on the rotating credit facility since the beginning of 2006 total \$8.7 million. In 2005, most of the increase in long-term debt consisted of amounts drawn for the Massif Central and Plouguin projects.

Financing expenses of \$1.2 million in 2006 (excluding those associated with the renewable energy tax credit monetization transaction) are related to the new rotating credit arrangement and the second fee payment associated with the €190 million master credit agreement signed in 2005.

Lastly, in the first half of 2006, Boralex issued shares for a total of \$0.3 million following the exercise of options by employees.

In summary, total cash flows in fiscal 2006, net of translation adjustments on cash and cash equivalents, generated cash and cash equivalents of \$3.3 million, leaving an available balance of \$13.9 million at December 31, 2006, compared to \$10.6 million a year earlier.

### FINANCIAL POSITION AS AT DECEMBER 31, 2006

#### General

The changes in Boralex's financial position between December 31, 2005 and December 31, 2006 primarily reflect the following factors:

- >> continued expansion in the wind power segment and long-term debt financing;
- >> the payment of suppliers and the start of debt repayments associated with wind power development;
- >> use of the Corporation's cash on hand to finance its

immediate operational needs, notably the major upgrade carried out in the wood-residue segment; and  
 >> the closing of the monetization transaction for U.S. renewable energy production tax credits in the wood-residue segment in December 2006.

#### Assets

As at December 31, 2006, total assets amounted to \$478.4 million compared to \$429.5 million a year earlier. This increase of \$48.9 million or 11% is due to the following:

>> expansion in the wind power segment, with investments of \$9.7 million in 2006 (\$16.3 million including cash paid into reserve accounts for long-term debt is included); and  
 >> investments of some \$12.3 million in the wood-residue segment, used to acquire one power station, to carry out spring and fall maintenance, and to purchase equipment. Also in the wood-residue segment, the Corporation benefited from a net cash inflow of \$10.9 million related to the monetization of renewable energy production tax credits. Prior to this transaction, the Corporation also had earned \$10.6 million in renewable energy tax credits for the first 11 months of 2006.

#### Working Capital

At the end of fiscal 2006, Boralex's working capital showed a deficit of \$14.6 million, compared to a deficit of \$18.6 million at December 31, 2005. It should be noted that the current portion of long-term debt includes a bridge loan that the Corporation expects to pay down in 2007. The variation in deficit is due to many factors, including:

>> receipt of proceeds from the renewable energy tax credit monetization transaction in the wood-residue segment;  
 >> final disbursements for construction projects finished at the end of December 2005 using the proceeds from the associated debt financing;  
 >> use of future income tax assets, in this case income tax loss carryforwards, to reduce income tax payable following the monetization transaction;  
 >> cash payments to reserves required with respect to credit arrangements; and  
 >> the rise of the euro against the Canadian dollar, which increased the current portion of long-term debt.

At December 31, 2006, non-cash working capital (i.e. before cash and cash-equivalents, loans and advances, and the current portion of long-term debt) reached \$13.3 million compared to \$9.8 million on December 31, 2005.

#### Total Debt and Shareholders' Equity

Between December 31, 2005 and December 31, 2006, the Corporation's total debt rose from \$203.8 million (\$193.2 million net of cash) to \$234.3 million (\$220.4 million net of cash) due mainly to the funds drawn for the Massif Central, Plouguin, and St-Agrève projects. As no new projects were announced in fiscal 2006, the Corporation still has, until December 31, 2008, an unused balance of €160.2 million from the €190 million master credit agreement, which gives Boralex considerable latitude to initiate new wind power projects in France. At current construction prices, this amount would cover projects totalling more than 100 MW.

Given Boralex's share price, which was \$10.40 at December 31, 2006, the total debt to market capitalization ratio was 75% at that date, compared to 81% at December 31, 2005, when the share price was \$8.39. Shareholders' equity grew by \$18.4 million during fiscal 2006, due mainly to net earnings for the period and to a decrease in cumulative translation adjustments associated with the rise of the euro against the Canadian dollar. At year end, equity totalled \$183.6 million, or about \$6.11 per share.

In the second quarter of 2006, the U.S. term loan was renewed until May 1, 2007. At December 31, 2006, the loan balance was \$5.0 million (US\$4.3 million). Boralex also extended, until June 30, 2007, its €15.9 million bridge loan from a French bank to build the Massif Central project. In 2006, the Corporation issued three letters of guarantee on its operating credit for a total of \$26.6 million, most of which was used to secure the bridge loan. At the end of the fourth quarter, the total of amounts drawn on Boralex's operating credit was \$49.5 million. The drop in value of Fund units following the announcement of federal government plans to amend certain provisions of the *Income Tax Act* with respect to income trusts has reduced the financing capacity of this operating credit. At December 31, 2006, \$1.3 million of this credit was still available. The Corporation also had cash on hand of \$13.9 million and is currently in negotiation to reduce the bridge loan and consequently, the letter of credits required under that bridge loan for \$10 to \$15 million.

### Deferred Revenue

On the Corporation's consolidated balance sheet, the consideration of \$16.7 million received on December 1, 2006 as part of the monetization of U.S. renewable energy production tax credits for the U.S. wood-residue thermal power stations is shown as a long-term liability under the heading *Deferred Revenue*. This deferred revenue will be recognized incrementally in the consolidated statements of earnings as the tax credits are delivered to investors. Thus, revenue of \$0.4 million was recognized between December 1 and December 31, 2006. It should be noted that in the event that insufficient tax credits were earned, the Corporation would have to repay the unearned portion of this revenue. However, long-term forecasts indicate that production levels will be high enough to preclude this contingency.

### OUTLOOK FOR 2007

Borex management is confident about the Corporation's financial performance in fiscal 2007 given the expected improvement in results for the wood-residue segment and a stronger contribution from the wind power segment; in 2006, a significant portion of the assets in the wind segment were still being started up.

### Wood-Residue Segment

Management is expecting better results in this segment in 2007, although it is not anticipating major price increases in the northeastern U.S. open market, and it expects that wood-residue fuel prices will remain high.

However, the wood-residue segment will benefit from the upward trend in demand and prices in the Connecticut RECs market that took hold in the fourth quarter of 2006. It is management's opinion that this trend will continue in 2007 and future years, primarily because the state of Connecticut (where Stratton power station is qualified to sell RECs) requires electricity distributors to carry a minimum percentage of renewable energy, and in 2010 that percentage will rise to 7%, compared to 2% in 2006. Thus, in addition to signing firm contracts to sell most of the RECs it expects to produce in 2007, Stratton recently signed firm contracts for the forward sale of part of its anticipated RECs production for 2008 and 2009. To date, these forward sales total more than US\$13 million for Stratton. Also, the Chateaugay power station, which qualified for the RECs market in New York State in February 2006, has signed an agreement with the New York State government, effective April 1, 2006, which entitles it to payment if energy prices on the New York open market are not high enough for Chateaugay to make a reasonable return. This provides

Chateaugay with additional operational security. Borex is currently evaluating its options with respect to its other U.S. power stations.

Other significant developments have also occurred recently in the wood-residue segment that will help improve its results, in particular the renewal, effective January 1, 2007, of two-year power sale agreements for Ashland and Fort Fairfield, with terms that better reflect current market conditions. This will improve the profitability of these facilities along with the average selling price per MWh in the wood-residue segment. In addition, forward sale contracts were signed for a significant part of the planned production by Stratton and Livermore Falls for 2007, which will help secure their revenue. Borex has also begun to take advantage of the Forward Capacity Market, a new market that allows energy producers to receive a monthly fee for committing to maintain their current capacity. This new product will generate more than \$4 million in 2007 and 2008. Thereafter the mechanism will be subject to the laws of supply and demand, which could represent an interesting revenue opportunity for Borex.

Lastly, Borex is continuing its efforts to improve the availability, quality and cost of wood residues, and to optimize power station productivity and efficiency. The cost per tonne of wood residue has risen significantly in the past few years, mainly due to higher oil prices, which affect transportation charges, and the use of higher-quality residues. Borex is continually trying to find more cost-effective solutions. With respect to fuel transportation expenses, Borex is trying to exert more control over wood-residue origins, to reduce transportation distances. Since 2004, Borex has made major investments in mobile wood-grinding equipment that makes it possible to harvest, at locations close to power stations, more than a third of their annual fuel requirements. Although the power stations are using higher quality and more expensive fuel than in the past, this generates significant savings by enabling the power stations to achieve a better burn rate and by reducing wear-and-tear on equipment, which will translate into lower maintenance and repair costs in the medium term. Overall, the supply and production strategies implemented since 2004 have enabled Borex to ensure a stable wood-residue supply for its facilities.

Furthermore, note that following the monetization of renewable energy production tax credits, the wood-residue segment will cash tax benefits based on the amount of power generated by its wood-residue facilities over the next three years. This transaction gives it greater financial flexibility for further growth.



### Wind Power Segment

Management also expects that in 2007, wind power will contribute more to Boralex's revenue and profitability, since the new wind farms started up at Massif Central and Plouguin in 2006 will be making a full contribution in 2007. A new 12-MW wind farm will also be started in mid-year, and capacity at an existing site will be expanded later in the year. Because the average price for electricity in France is higher than in North America, more power generation in this segment will have a positive impact on Boralex's profitability. This segment will also benefit from the increasingly proactive and effective technical management of Boralex's wind power facilities, which has improved the wind-farm availability rate and resulted in new preventive measures to, for example, counter the effect of icing. In 2006, a state-of-the-art remote management centre was set up at Blendecques, in France, to which all of Boralex's facilities are now linked. Sophisticated tools to monitor and communicate the real-time weather conditions and performance of wind turbines have also been set up.

In the longer term, the French government has passed legislation to promote wind power, as part of its plans to increase wind power tenfold within the next ten years. This is encouraging the Corporation to pursue an ambitious investment strategy in France, where it aims to substantially increase its installed capacity. Growth opportunities will also be explored in other countries in Europe.

In partnership with Gaz Métro and the Séminaire de Québec, Boralex is studying the possibility of setting up a wind farm with a capacity of more than 400 MW on the Seigneurie de Beaupré lands in Québec. This project will be submitted this year to Hydro-Québec Distribution in response to their call for bids for an additional 2,000 MW issued in 2005.

The many studies conducted to date on this vast and exceptionally well-located site confirm its excellent potential.

### Hydroelectric Segment

The hydroelectric power stations benefited from exceptional hydrological conditions in 2006. Management wishes to point out, however, that the performance in 2006 is not indicative of a trend, especially since its hydroelectric power stations do not have reservoirs to regulate water flows. However, given the nature of their operations and cost structure, Boralex's hydroelectric power stations have been historically reliable sources of revenue and profits.

In June 2006, Boralex announced the projected acquisition of a sixth hydroelectric power station in New York State, but due diligence led to the rejection of this acquisition.

### Natural-Gas Cogeneration Plant

Given that the cost of natural gas is still high, management expects to shut down the cogeneration equipment at this facility in 2007 from April to October for the third year in a row. An auxiliary boiler will be used to supply steam to the industrial client. This decision will be re-evaluated if natural gas prices drop significantly and if the plant's revenue margin is sufficient to justify the operating costs. Note that in 2007 there will be a shortfall in the sale of CO<sub>2</sub> quota by this facility, as the excess quota for 2007 was sold in 2006. Management expects, however, that this segment will continue to make a positive contribution to Boralex's profitability, due to current electricity and steam prices in France, and the fact that the plant has a natural gas supply contract that protects its revenue margin for the next fiscal year.

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Overall, due to the expected recovery in the wood-residue segment and the expansion of its wind power segment, Boralex anticipates significant growth in revenue, profits and cash flow from operations in the coming quarters. Combined with its cash assets, this growth should enable the Corporation to continue to provide for its normal cash requirements, to strengthen its financial position and to pursue its other expansion plans. Boralex does not plan, in the short term, to pay dividends on its Class A shares; its policy is to reserve its cash assets for growth projects. The outlook for Boralex is also favourable in the longer term, given the quality and diversification of its assets and its expertise in renewable energy generation. In general, Boralex will continue to explore opportunities that arise in its fields of expertise, while maintaining its focus on the responsible management of operating costs and business risks.

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#### CAPITAL STOCK INFORMATION

As at December 31, 2006, Boralex's capital stock consisted of 30,049,586 Class A shares issued and outstanding (29,989,398 as at December 31, 2005). During 2006, employees exercised a total of 60,188 share purchase options, and 7,485 options were cancelled. In addition, 297,664 new options were issued to members of Boralex's senior management.

As at December 31, 2006, share purchase options numbered 1,176,106, of which 565,576 can be exercised at an average strike price of \$4.84.

#### NORMAL COURSE ISSUER BID

On June 12, 2006, Boralex announced its intention to begin a normal course issuer bid starting on June 14, 2006 and ending on June 13, 2007. The normal course issuer bid will enable Boralex to acquire up to 1,500,000 Class A Shares, representing about 5% of Boralex's 30,049,586 issued and outstanding Class A Shares as at May 31, 2006. Purchases pursuant to the normal course issuer bid will take place as part of Boralex's normal activities, through the Toronto Stock Exchange. The Class A Shares purchased will be cancelled. As at December 31, 2006, Boralex had not purchased any Class A Shares under this program.

#### FINANCIAL INSTRUMENTS

There has been no significant change in the Corporation's risk management strategy since December 31, 2005.

##### Market Risk

To mitigate its risk related to price fluctuations of electricity in the U.S. market, the Corporation has signed fixed-price contracts. A significant portion of these contracts requires the physical delivery of electricity in order for compensation to take place. However, it may be more efficient to arrange financial forward contracts that do not require delivery of electricity. The Corporation's forward contracts are designated as a hedge of the variable cash flows related to future electricity sales. The Corporation documents these hedging relationships throughout their existence to ensure that they remain highly efficient. Under hedge accounting rules, these instruments are not presented on the Corporation's balance sheet.

As at December 31, 2006, the Corporation had four hedging contracts covering total generation of 227,064 MWh for periods ranging from 7 to 27 months. Their favourable fair value as at that date is \$2.8 million.

##### Interest Rate Risk

Since a significant proportion of the Corporation's debt bears interest at variable rates, financial swaps were arranged in order to fix a portion of the interest. These financial instruments act as a cash flow hedge on the variable interest paid on certain variable-interest debt. As with the electricity price swaps discussed above, the Corporation documents these hedging relationships to make sure that they remain highly efficient. Note that some swaps were in a situation of overcompensation for the item covered, however, the effect was negligible.

As at December 31, 2006, the Corporation has arranged interest rate swaps for a notional amount of \$135.7 million, with a favourable fair value of \$2.4 million.

#### RISKS AND UNCERTAINTIES

##### Risk Related to Operations

Revenue generated by power stations is proportional to the amount of electrical power they produce. If power stations require longer downtime than expected for maintenance and repair, or if electricity production is interrupted for other reasons, it could have a negative effect on the Corporation's revenue and profitability.

With the exception of its Canadian and European power stations, along with one hydroelectric power station in the U.S., all of which have long-term power sale agreements, and two wood-residue power stations that have fixed-price two-year contracts, eight of the power stations operated by Boralex sell their electricity under short-term contracts (less than a year) or on the open market. Electricity prices vary depending on supply, demand and certain external factors. As a result, prices may fall too low for the power stations to turn in an operating profit. Boralex has implemented a hedging strategy to reduce this risk, as discussed above.

The accessibility, availability and cost of raw materials represent risk factors for the Corporation. For instance, the performance of hydroelectric power stations can be affected by the amount of water flow. Thermal and cogeneration power stations are dependent on sufficient and affordable supplies of wood residue and natural gas. The Corporation reduces this risk by establishing partnerships with suppliers and, in the case of wood residue, 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.

### Foreign Exchange 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 U.S. wood-residue power stations is denominated in Canadian dollar. Apart from this item, most transactions take place in the local currency of the power stations.

With respect to currency translation for its foreign subsidiaries, only two of the 21 power stations owned by Boralex are located in Canada, whereas eleven are in the United States and eight in France. Since all subsidiaries are self-sustaining, 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 funds to Canada.

### Credit Risk

The Corporation has only a few clients, 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 slightly 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 NEEPOOL for the New England state 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 instruments are also large corporations. Before entering into a derivative transaction, the Corporation checks 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.

Finally, the Corporation is exposed to a credit risk with respect to its lease-financing contracts. To reduce this risk, the Corporation regularly evaluates supplier performance to see if any measures are required. The Corporation also visits the wood-chip 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 better credit. In such a case, the Corporation would re-value the assets based on the lower of the book value or fair market value.

### Interest Rate Risk

The Corporation is carrying certain long-term debts bearing interest at variable rates. As at December 31, 2006, approximately 88% 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. As discussed in note 8 of the consolidated financial statements for the year ended December 31, 2006, the Corporation has used interest rate swaps to reduce its risk by reducing its exposure to interest rate fluctuations to 35% of total debt. Note that some swaps were in a situation of overcompensation for the item covered, however, the effect was negligible.

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

### Possible Change in Canadian Tax Treatment of Income Trusts

Following the announcement by the federal government in October 2006 of a proposed tax treatment of income trusts, slated to take effect in 2011, the Fund set up an independent committee to evaluate the options available to it. The Fund has announced on March 2, 2007 that it has resolved to commence a process to solicit proposals leading to a potential sale of, or merger with, the Fund. Boralex's shareholders will be informed in a timely manner of any important development in this issue and its impact on Boralex.

**CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS****Commitment in Relation to the Fund**

The Corporation has committed under the terms of a management agreement ending February 19, 2022 with renewable successive five-years terms, 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. When the Fund was created in 2002, the annual fee for these services was set at \$4,386,000, payable to the Corporation in monthly instalments. Since then, the fee has been indexed annually based on the Consumer Price Index for the preceding 12 months. For 2006, the revenue from this agreement was \$5,165,000 (\$5,064,000 in 2005).

The Corporation has committed to provide, according to terms similar to those described above, the complete management of two hydroelectric power stations located in the State of New York (the "Adirondack power stations") 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 power stations, as well as their overhead expenses. Revenue from this agreement was \$292,000 in 2006 (\$293,000 in 2005). This agreement will end in 2023 and is renewable for additional five-years terms at the option of Boralex, the manager.

**Other Commitments and Contingencies**

In addition to the commitments related to the Fund, the Corporation is committed to the following:

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. The Corporation has also entered into 26-month power sale agreements 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	GENERATION TYPE	EXPIRATION
Canada	Electricity	2010 and 2021
France	Electricity	Between 2013 and 2020
France	Steam	2022

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 set at a fixed amount indexed at 3% annually. In 2006, the lease payment was \$361,000 (US\$318,300) and will be indexed at 3% per year until 2013. Starting in 2014, the lease will be variable, at 30% of the gross revenue of the Middle Falls power station.

The Corporation is committed under forward sales contracts to sell RECs generated by one of its U.S. power stations that has qualified as a renewable energy producer in Connecticut. As at December 31, 2006, the balance of these engagements was about \$8.6 million, for periods from January 2007 to December 2007. After, the end of 2006, the Corporation also concluded contracts for an additional \$6.7 million for 2007, 2008 and 2009.

In accordance with its risk management policy, the Corporation set the price of part of the production of one of its wood-residue facilities under forward contracts requiring the physical delivery of electricity. As at December 31, 2006, the total of these contracts covered 116,400 MWh (229,200 MWh in 2005). These contracts had an unfavourable fair value of US\$903,000 (US\$8,520,000 in 2005).

Under the wood-residue supply contracts for its power stations, the Corporation agreed to receive of certain minimum quantities. Based on production forecasts, the Corporation expects to take delivery of quantities above the contract minimums. The Corporation has signed a turnkey maintenance contract with GE Wind Energy for its wind power project at Massif Central. The initial contract period is five years, with anticipated annual expenditures of approximately €600,000.

Over the years, the Corporation has sold portions of its business, including electrical power stations, to the Boralex Power Income Fund. Under the agreements regarding these sales, the Corporation could be required to indemnify the purchaser for the liabilities of a company 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 ten years. The Corporation cannot assess the amount of its contingent liabilities under such indemnification guarantees since these amounts depend on the occurrence of possible future events whose nature and likelihood cannot be established for the time being. However, the maximum amount under these guarantees may not exceed the proceeds from the sales.

#### **RELATED PARTY TRANSACTIONS**

In addition to holding 23% of the Boralex Power Income Fund trust units, the Corporation is linked to the Fund by long-term management and administration contracts. In 2006, these agreements generated 4% of Boralex's total revenue (4% in 2005), while its share of the Fund's results represented 7% (7% in 2005). Boralex received distributions of \$12.4 million in 2006 (\$12.4 million in 2005).

One of Boralex's power stations in France supplies steam to Norampac Inc., which is 100% owned by Cascades Inc. Cascades is a company that has considerable influence over Boralex, since it holds 43% of its share capital. Revenue from Norampac was to \$7.9 million for fiscal 2006 (\$7.9 million in 2005).

The Corporation also has a management contract for power stations controlled by one of its directors and officers. Revenue from this agreement amounted to \$0.5 million for fiscal 2006 (\$0.5 million in 2005).

#### **SIGNIFICANT ACCOUNTING ESTIMATES**

Some of Boralex's accounting policies require significant estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes.

These future events and their effects cannot be determined with absolute certainty, but estimates are based on assumptions deemed reasonable by management. Actual results could differ from estimates and even small variances could have a material effect on the Corporation's financial statements. The significant estimates used by the Corporation mainly concern the assumptions used to assess the impairment of long-lived assets. Estimates related to future electricity prices, the useful remaining asset life, and future cash inflows and outflows related to those assets, could vary considerably in the future. These estimates could have a material impact on the Corporation's future operating results and financial position.

#### **NEW ACCOUNTING POLICIES ADOPTED**

No new accounting policy was adopted in 2006.

#### **NEW ACCOUNTING STANDARDS TO BE ADOPTED IN FUTURE YEARS**

##### **Financial Instruments, Hedging, Equity and Comprehensive Income**

In January 2005, CICA published four new sections: Section 1530, "Comprehensive Income"; Section 3251 "Equity"; Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges". These new standards regarding recognition and measurement of financial instruments, hedging and comprehensive income have been created to harmonize with the generally accepted accounting policies already used in the United States. The Corporation must adopt the new standards for the period starting January 1, 2007. The Corporation is presently evaluating the impact of these new standards on its financial position and results of operations.

#### **ADDITIONAL INFORMATION**

Additional information about the Corporation, including its latest Annual Report and Annual Information Form, quarterly reports and press releases, is available on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

Selected Quarterly Information

**YEARS ENDED DECEMBER 31**

*(in thousands of dollars, unless otherwise specified)*

	<b>2006</b>			
QUARTERS ENDED	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<b>Revenue from energy sales</b>				
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
Wind power sites	5,574	5,221	4,652	7,727
	<b>37,101</b>	<b>20,819</b>	<b>26,643</b>	<b>35,439</b>
<b>EBITDA</b>				
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
Wind power sites	4,511	4,457	4,016	6,782
Corporate and eliminations	2,757	746	366	715
	<b>17,581</b>	<b>4,909</b>	<b>8,372</b>	<b>11,960</b>
Net earnings	7,609	1,483	1,215	4,713
per share (basic)	\$0.25	\$0.05	\$0.04	\$0.16
Weighted average number of shares outstanding (basic)	29,997,561	30,038,064	30,049,586	30,049,586

	<b>2005</b>			
QUARTERS ENDED	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<b>Revenue from energy sales</b>				
Hydroelectric power stations	2,699	2,627	1,196	3,440
Wood-residue thermal power stations	20,516	14,458	22,989	20,511
Natural gas thermal power station	5,739	2,058	1,914	4,233
Wind power sites	2,064	1,271	859	2,122
	<b>31,018</b>	<b>20,414</b>	<b>26,958</b>	<b>30,306</b>
<b>EBITDA</b>				
Hydroelectric power stations	2,284	1,979	(61)	2,251
Wood-residue thermal power stations	2,040	4,447	6,051	4,366
Natural gas thermal power station	1,432	666	(283)	885
Wind power sites	1,646	1,054	532	916
Corporate and eliminations	1,998	589	29	1,263
	<b>9,400</b>	<b>8,735</b>	<b>6,268</b>	<b>9,681</b>
Net earnings	3,409	5,588	2,729	9,362
per share (basic)	\$0.11	\$0.19	\$0.09	\$0.31
Weighted average number of shares outstanding (basic)	29,986,663	29,986,663	29,986,663	29,987,978

## 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 judgements of management. Financial information presented elsewhere in this Annual Report is consistent, where applicable with that shown in the accompanying consolidated financial statements.

The consolidated financial statements have been further 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 and Boralex Inc. 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 the Fund. 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 their examination and sets forth their opinion on the consolidated financial statements.

(s) Patrick Lemaire  
Patrick Lemaire  
President and Chief Executive Officer

(s) Jean-François Thibodeau  
Jean-François Thibodeau  
Vice-President and Chief Financial Officer

Montreal, Canada  
February 28, 2007

## Auditors' Report

*To the shareholders of Boralex Inc.*

We have audited the consolidated balance sheets of Boralex Inc. as at December 31, 2006, and December 2005, and the consolidated statements of earnings, retained earnings 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, 2006, and December 31, 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(s) PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP  
Chartered Accountants

Montreal, Canada  
February 28, 2007

## Consolidated balance sheets

As at December 31 <i>(in thousands of dollars)</i>	NOTE	2006	2005
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		13,899	10,615
Accounts receivable	17	26,964	26,006
Inventories		5,342	5,232
Prepays		2,776	1,955
Future income taxes	14	-	7,979
		48,981	51,787
Investment	4 A	75,553	77,997
Property, plant and equipment	5	282,489	262,460
Electricity sales contracts	6	20,631	16,814
Future income taxes	14	6,249	-
Other assets	7	44,480	20,457
		478,383	429,515
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank loans and advances		-	1,215
Accounts payable and accrued liabilities	17	20,005	28,608
Income taxes		1,786	2,787
Current portion of long-term debt	8	41,835	37,802
		63,626	70,412
Long-term debt	8	192,493	164,832
Deferred revenue	9	16,368	-
Future income taxes	14	21,564	28,026
Non-controlling interests		730	1,034
		294,781	264,304
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	11	112,451	111,686
Retained earnings		99,208	84,188
Cumulative translation adjustments	12	(28,057)	(30,663)
		183,602	165,211
		478,383	429,515

Approved by the Board of Directors,

(s) Bernard Lemaire  
 Bernard Lemaire  
 Executive Chairman of the Board

(s) Germain Benoit  
 Germain Benoit  
 Director and Chairman of the Audit Committee



Consolidated Financial Statements

## Consolidated statements of earnings

For the years ended December 31 <i>(in thousands of dollars, except per-share amounts and number of shares)</i>	NOTE	2006	2005
Revenue from energy sales		120,002	108,696
Renewable energy tax credits	9	10,622	11,039
Operating costs		94,572	87,851
		36,052	31,884
Share in earnings of the Fund		10,023	8,873
Management revenue from the Fund	4 B	5,457	5,357
Other revenue		4,776	1,563
		56,308	47,677
<b>Other expenses</b>			
Management and operation of the Fund		4,249	4,054
Administration costs		9,237	9,539
		13,486	13,593
<b>Earnings before amortization</b>		42,822	34,084
Amortization		20,880	11,037
Financial expenses	13	12,528	4,421
		33,408	15,458
<b>Earnings before income taxes</b>		9,414	18,626
Income tax recovery	14	(5,774)	(2,560)
		15,188	21,186
Non-controlling interest		(168)	(98)
<b>Net earnings</b>		15,020	21,088
Net earnings per Class A share (basic)		\$0.50	\$0.70
Net earnings per Class A share (diluted)		\$0.49	\$0.70
Weighted average number of Class A shares outstanding (basic)	11	30,033,885	29,986,994

## Consolidated statements of retained earnings

For the years ended December 31 <i>(in thousands of dollars)</i>	2006	2005
Balance—beginning of year	84,188	63,100
Net earnings for the year	15,020	21,088
Balance—end of year	99,208	84,188

## Consolidated statements of cash flows

For the years ended December 31 <i>(in thousands of dollars)</i>	NOTE	2006	2005
<b>Operating activities</b>			
Net earnings		15,020	21,088
Distributions received from the Fund	4 A	12,392	12,391
Adjustments for non-cash items			
Change in the fair value of electricity swaps		-	565
Share in earnings of the Fund		(10,023)	(8,873)
Amortization		20,880	11,037
Amortization of deferred financing costs		475	477
Renewable energy tax credits		(9,870)	(11,039)
Future income taxes	14	(5,100)	86
Other		744	487
		24,518	26,219
Changes in non-cash working capital balances	15	(10,713)	(6,907)
		13,805	19,312
<b>Investing activities</b>			
Purchase of property, plant and equipment		(19,201)	(135,753)
Other assets		(7,798)	(3,034)
Business acquisitions	3	(6,749)	(18,642)
Proceeds on disposal of property, plant and equipment		-	400
		(33,748)	(157,029)
<b>Financing activities</b>			
Bank loans and advances		(1,215)	19,637
Increase in long-term debt		69,629	136,108
Payments on long-term debt		(56,487)	(9,075)
Financing costs		(1,167)	(2,547)
Monetization program, net of related expenses	9	10,935	-
Net proceeds on share issuance		273	12
Other		-	(72)
		21,968	144,063
Translation adjustments on cash and cash equivalents		1,259	(1,173)
Net change in cash and cash equivalents		3,284	5,173
Cash and cash equivalents—beginning of year		10,615	5,442
Cash and cash equivalents—end of year		13,899	10,615
<b>Supplemental disclosure</b>			
Cash and cash equivalents paid for			
Interests		12,028	6,489
Income taxes		720	356

# Notes to Consolidated Financial Statements

December 31, 2006 and 2005 (*Tabular amounts are in thousands of dollars, unless otherwise specified.*)

## Note 1.

### Nature of operations and basis of consolidation

Borex inc. (“Borex” or the “Corporation”) operates mainly as a private producer of energy. As at December 31, 2006, the Corporation had interests in eight hydroelectric power stations (eight in 2005), six wood-residue thermal power stations (five in 2005), one natural gas cogeneration power station (one in 2005) and six wind power stations (six in 2005), for a total capacity of 333.2 megawatts (“MW”) (315.2 MW in 2005). The Corporation also manages ten power stations (ten in 2005) owned by Borex Power Income Fund (the “Fund”), in which the Corporation holds an interest, and two hydroelectric power stations (two in 2005) 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 are unaudited)*

## 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 and assumptions 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 reported in the period in which they become known.

The key estimates used by Borex relate mainly to 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 other associated revenues, 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 price curve. Beyond three years, prices can be negotiated with specific parties, but often at a significant discount considering a lack of liquidity for such a period. 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.

In regards 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 contracts, adjusted for inflation in the remaining years of the forecast period.

## Note 2. Significant accounting policies (cont'd)

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 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 income. 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 situation.

### 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 client.

#### *Management revenue*

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

#### *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.

### Fair Market Value of Financial Instruments

The Corporation has estimated the fair market value of its financial instruments based on current interest rates, market value and current pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value.

### Derivative Financial Instruments

The Corporation uses derivative financial instruments to manage its market risk with respect to the selling price of electricity and with respect to interest rates. 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 items 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 offsetting the changes in fair value or cash flows of the hedged items. Throughout the hedging relationship, the Corporation must have reasonable 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. The estimated fair value is determined using pricing models that take into account current market prices and contract prices for the underlying items, the time value of money and yield curves.

#### *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.

Payments made or received with respect to derivative financial instruments used for hedging are charged to *Revenue from energy sales* for electricity-related financial swaps and to *Financial expenses* for interest rate swaps.

Note 2. Significant accounting policies (cont'd)

*Derivative financial instruments not designated as hedges*

Derivative financial instruments which are not designated as hedges 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 position of the fair value. Subsequent changes in fair value are recorded against earnings.

**Cash and Cash Equivalents**

Cash includes cash on hand and bank balances. Cash equivalents include bankers' acceptances and commercial paper that are readily convertible into known amounts of cash and will initially mature in three months or less. These investments are recorded at cost plus accrued interest and their carrying value approximates their fair market value.

**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, net of the unrealized gain which is amortized using the straight-line method over a period of 20 years.

**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:

*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.

*Power station with index-linked long-term sale contract*

Amortization is calculated using the compound interest method at a rate of 3% over a term of no more than 40 years.

*Wind sites and other power stations*

Amortization is calculated using the straight-line method over periods of 18 to 40 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 disposition.

**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.

## Note 2. Significant accounting policies (cont'd)

**Other Assets***Net investment direct financing leases*

The Corporation engaged in lease financing transactions with a few suppliers 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 included in reduction of *Financial expenses* in the Statement of Earnings.

*Deferred financing costs*

Deferred financing costs are amortized using the straight-line method over the term of the corresponding debts.

*Monetization program expenses*

The expenses of setting up the monetization program are depreciated on a straight-line basis over the life of the program, namely three years.

*Restricted funds*

Restricted funds represent funds held in trust for the purpose of satisfying 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.

*Project development costs*

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 charged against 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.

*CO<sub>2</sub> 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.

## Note 2. Significant accounting policies (cont'd)

### *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 posted under *Cumulative translation adjustments*.

### *Deferred Revenue*

Deferred revenue corresponds to the non-amortized portion of the forward payment received by the Corporation when it set up its program to monetize the U.S. renewable energy production tax credits. This deferred revenue will be recognized incrementally as the credits are earned by the power stations in the program. See note 9 of the financial statements for details.

### *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 expense is recorded to earnings based on the exercise conditions of the options awarded. The fair value is determined using the Black-Scholes option pricing model, which was designed to estimate the fair value of traded options that have no restrictions as to vesting of rights and are completely transferable. Some of the outstanding options do 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 *Capital stock*.

### *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 identified these obligations for its wood-residue thermal power stations, wind power sites and hydro-electric facilities. However, no liability was recorded because it plans to use these assets for an indefinite period. For these tangible 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 new 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's wood-residue thermal power stations meet these criteria; this enables them to take advantage of this tax benefit, which is based on the amount of electricity generated from the qualified source.

## Note 2. Significant accounting policies (cont'd)

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.

### New accounting standard to be adopted in coming years

#### *Financial instruments, hedging, equity and comprehensive income*

In January 2005, the CICA published four new sections: Section 1530, "Comprehensive Income"; Section 3251 "Equity"; Section 3855 "Financial Instruments—Recognition and Measurement" and Section 3865 "Hedges". These new standards dealing with the recognition and measurement of financial instruments, hedging and comprehensive income have been created to harmonize with the generally accepted accounting policies already used in the United States and must be adopted by the Corporation for the period beginning January 1, 2007. The Corporation is presently evaluating the impact of these new standards on its financial position and operating results.

### Comparative figures

Some items on the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

## Note 3.

### Business acquisitions

The Corporation accounted for the following transactions using the purchase method:

#### 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. A cash consideration of \$3,587,000 (US\$3,142,000) was paid to purchase the facility. Because of the strategic nature of this acquisition, the purchase price allocation is subject to change.

#### 2005

On April 5, 2005, the Corporation acquired six French companies that owned the rights to build and operate wind farms, the electricity sales contracts, as well as some in-progress site construction, located in the Massif Central region of France. These sites started commercial production in December 2005 with a total installed capacity of 57 MW. Consideration for this acquisition was paid in cash and amounted to \$13,667,000 (€8,722,000) and 95% was owned by the Corporation. Total investment in this project was approximately \$113,633,000 (€77,334,000). The electricity produced is sold exclusively to Électricité de France ("EDF") under a 15-year contract.

On June 28, 2005, the Corporation acquired a French company that owned the rights to build and operate a wind farm, the electricity sales contracts, as well as some in-progress site construction, located in Plouguin, France. This site started production in December 2005 with an installed capacity of 8 MW. Consideration for this acquisition was paid in cash and amounted to \$2,716,000 (€1,827,000). Total investment in this project was approximately \$14,400,000 (€9,900,000). The electricity produced will be sold exclusively to EDF under a 15-year contract.

On December 14, 2005, the Corporation acquired a French company (La Citadelle S.A.S.) that owned the rights to build and operate a wind farm, as well as electricity sales contracts. This site is located in St-Agrève, France and will have an installed capacity of 12 MW when it goes into commercial production, originally slated for the fourth quarter of 2006. Commercial production has been postponed until the summer of 2007 due to delay in equipment deliveries. Consideration for this acquisition was paid in cash and amounted to \$2,259,000 (€1,627,000). The electricity produced will be sold exclusively to EDF under a 15-year contract.



## Note 3. Business acquisitions (cont'd)

2006

	WOOD RESIDUE STACYVILLE	MINORITY INTEREST MASSIF CENTRAL	MINORITY INTEREST AVIGNONNET- 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

2005

	WIND POWER MASSIF CENTRAL	WIND POWER PLOUGUIN	WIND POWER ST-AGRÈVE	TOTAL
Working capital	756	317	454	1,527
Property, plant and equipment	2,937	230	-	3,167
Electricity sales contracts	10,236	2,193	1,805	14,234
Net assets acquired	13,929	2,740	2,259	18,928
Cash and cash equivalents included in acquired working capital	262	24	-	286
Net consideration	13,667	2,716	2,259	18,642

## Note 4. Investment

The Fund is an income trust in which the Corporation holds a 23% interest as at December 31, 2006 and 2005.

a) The investment in the Fund is made up of the following:

	2006	2005
Investment in units, at cost	137,680	137,680
Share in earnings	33,782	25,868
Gain on dilution	545	545
Share in distributions	(59,664)	(47,272)
Share in cumulative translation adjustments	(4,762)	(4,687)
	107,581	112,134
Net unrealized gain	(32,028)	(34,137)
	75,553	77,997

The share in earnings of the Fund recorded in earnings includes amortization of the unrealized gain amounting to \$2,109,000 (\$2,109,000 in 2005). During the year, the Corporation received \$12,392,000 (\$12,391,000 in 2005) 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 12 months. For the year ended December 31, 2006, the management fee under this agreement was \$5,165,000 (\$5,064,000 for 2005);

## Note 4. Investment (cont'd)

- 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 \$292,000 for the 12-month period ended December 31, 2006 (\$293,000 for 2005). This agreement will end in 2023 but is renewable for additional five-year terms at the option of the manager.
- 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, 2006, accounts receivable included an amount of \$1,872,000 receivable from the Fund (\$1,670,000 in 2005), of which \$1,033,000 was in the form of distributions receivable (\$1,033,000 in 2005). In 2006 and 2005, no amounts were payable to the Fund.
- d) The table below contains financial information from the consolidated financial statements of the Fund at December 31, 2006 and 2005 and for the years ending on those dates:

	2006	2005
<b>Consolidated balance sheets</b>		
Working capital, net	23,123	18,261
Intangible assets and goodwill	128,147	136,499
Property, plant and equipment and other long-term assets	411,377	426,591
Long-term liabilities	(125,616)	(124,916)
Total net assets	437,031	456,435
	2006	2005
<b>Consolidated statements of earnings</b>		
Revenue	115,226	107,860
Operating income before amortization	70,875	61,781
Net earnings	33,966	24,322
<b>Consolidated statements of cash flows</b>		
Operating activities	55,970	53,400
Investing activities	(3,128)	(9,836)
Financing activities	(53,000)	(49,094)

For the year ended December 31, 2006, 66% of the Fund's revenue was realized in Canada and 34% in the United States (68% and 32% in 2005). As at December 31, 2006 and 2005, 68% of property, plant and equipment was located in Canada and 32% in the United States.

## Note 5.

### Property, plant and equipment

	2006		
	COST	ACCUMULATED AMORTIZATION	NET
Power stations	322,553	52,170	270,383
Wind power stations under construction	9,474	-	9,474
Replacement parts	2,632	-	2,632
	334,659	52,170	282,489

## Note 5. Property, plant and equipment (cont'd)

2005

	COST	ACCUMULATED AMORTIZATION	NET
Power stations	293,270	32,371	260,899
Replacement parts	1,561	-	1,561
	294,831	32,371	262,460

Amortization of property, plant and equipment amounted to \$18,964,000 for the year ended December 31, 2006 (\$10,708,000 in 2005) including an amount of \$1,543,000 relating to capital leases (\$1,634,000 in 2005). Those amounts are presented as *Amortization*. Cost and accumulated amortization of assets under capital leases totalled \$33,232,000 and \$6,987,000 respectively as at December 31, 2006 (\$29,834,000 and \$4,777,000 as at December 31, 2005).

In 2006, interest in the amount of \$420,000 was capitalized to the construction of capital assets (\$2,788,000 in 2005).

## Note 6.

## Electricity sales contracts

	2006	2005
Cost	22,935	17,278
Accumulated amortization	2,304	464
	20,631	16,814

Amortization of long-term electricity sales contracts amounted to \$1,698,000 for the year ended December 31, 2006 (\$173,000 for 2005) and is included in *Amortization*.

## Note 7.

## Other assets

	NOTE	2006	2005
Renewable energy tax credits	A	20,231	10,625
Deferred financing costs		3,011	2,060
Monetization program expenses	A	5,673	-
Restricted funds and other funds held in trust	B	8,280	1,636
Net investments in lease financing		5,420	4,114
Deferred costs		355	671
CO <sub>2</sub> quota		71	717
Investments		79	85
Project development costs		1,360	549
		44,480	20,457

Amortization of deferred costs amounted to \$65,000 in 2006 (\$156,000 in 2005) and amortization of the costs related to the monetization program were \$153,000 in 2006 and are presented in *Amortization*. Finally, amortization of deferred financing costs was \$475,000 in 2006 (\$477,000 in 2005). The remaining items are not subject to amortization.

During 2006:

- A) The renewable energy tax credits represent tax credits earned by the Corporation before it set up the monetization program 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 5 to 10 years. See note 9 in these consolidated financial statements for more information about this transaction.

Note 7. Other assets (cont'd)

- b) Under the financial agreements for the Massif Central and Plouguin projects, in 2006 the Corporation established cash reserves for debt servicing. In both cases, the reserve account must always contain sufficient assets to cover the debt servicing for the next payment date, i.e., a period of six months.

## Note 8. Long-term debt

Long-term debt is comprised of the following:

	NOTE	RATE <sup>(1)</sup>	2006	2005
Revolving credit bearing interest at a variable rate	A	6.71%	49,493	40,797
Variable rate project credit of €15,873,000 as at December 31, 2006 (€15,725,000 in 2005) maturing June 30, 2007	B	3.38%	24,408	21,775
Secured senior credits with a balance of €83,938,000 as at December 31, 2006 (€79,578,000 in 2005), repayable in semi-annual instalments and maturing between 2017 and 2020	C	4.99%	129,071	109,857
Secured junior credit with a balance of €3,734,000 as at December 31, 2006 (€2,300,000 in 2005), repayable in semi-annual instalments and maturing in 2015	C	6.45%	5,742	3,175
Project leases with a balance of €12,096,000 as at December 31, 2006, (€13,585,000 in 2005), repayable in quarterly instalments and maturing between 2012 and 2015	D	5.56%	18,600	18,755
Term loan bearing interest at a variable rate with a balance of US\$4,296,000 as at December 31, 2006 (US\$5,096,000 in 2005), repayable in quarterly instalments and maturing May 1, 2007		6.80%	5,006	5,942
Other			2,008	2,333
			<b>234,328</b>	<b>202,634</b>
Current portion			<b>41,835</b>	<b>37,802</b>
			<b>192,493</b>	<b>164,832</b>

(1) Average weighted annual rates for 2006, adjusted to reflect the impact of interest rate swaps.

- a) This financing, for a total authorized of \$85,000,000, is guaranteed by Boralex's 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 reestablish the coverage ratio. As at December 31, 2006, the amount used was \$49,493,000 and letters of credit for a total of \$26,577,000 (including the letter of credit discussed in b) were issued against this operating credit. Lastly, the market value of a unit was \$9.38 and the repayment threshold was \$9.23 (including all letters of credit in circulation issued on the operating credit).
- b) A letter of credit in the amount of \$25,269,000 in 2006 (\$22,382,000 in 2005) drawn on the revolving credit was issued to secure the project leases. Boralex intends to refinance this credit on a long-term basis, but it has been included in current liabilities due to its current maturity date.
- c) The Corporation finances a significant portion of the development and construction of its wind power sites with senior and junior secured credit. Accordingly, on July 22, 2005, Boralex entered into a major master credit agreement of €190,000,000, including a €150,000,000 senior credit facility, a €10,000,000 junior credit arrangement, and €30,000,000 to finance amounts that will be recoverable in the short term from the French Trésor Public. These funds will be available for the development of new wind power projects, subject to certain conditions. Each project will have separate financing defined by its own contract. Interest will be at a variable rate based on the EURIBOR rate plus a margin. This credit will be available until December 31, 2008.

## Note 8. Long-term debt (cont'd)

As at December 31, 2006, the following funds were available under the master credit agreement:

<i>(in thousands of €)</i>	CREDIT LIMITS	AMOUNTS AUTHORIZED OR DRAWN		AVAILABLE
		PLOUGUIN	ST-AGRÈVE	
Senior credit	150,000	9,684	14,473	125,843
Junior credit	10,000	-	914	9,086
VAT credit	30,000	2,100	2,600	25,300
	190,000	11,784	17,987	160,229

Since construction at St-Agrève is not yet completed as at December 31, 2006, the Corporation has not finished drawing on this credit.

Prior to this master credit agreement, during 2005 the Corporation had obtained senior credit of €67,384,000 and junior credit of €4,041,000 for its Massif Central projects. In previous fiscal years, the Corporation had also obtained separate financing for a number of projects. As at December 31, 2006, there were no available and unused balances remaining.

Senior and junior credits are secured with the assets of the associated projects, with the junior credit being subordinate to the senior credit.

- d) Project leases consist of capital leases on assets located in France. The net book value of property, plant and equipment covered by these leases is \$26,245,000 as at December 31, 2006 (\$25,057,000 in 2005).

*Interest rate swaps*

Except for the Nibas wind farm financing, all senior and junior secured credit 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 obtain fixed interest charges on portions varying from 57% to 100% 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 3.85%. 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 swap instruments, the Corporation has reduced the proportion of its variable-rate debt from 88% to 35%.

*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 course of the agreements. As at December 31, 2006, \$8,280,000 (\$1,636,000 in 2005) was kept in reserve accounts. These amounts are included in *Other assets* on the Corporation's consolidated balance sheet.

In addition to property, plant and equipment associated with capital leases, the property, plant and equipment of one U.S. power station, one Canadian power station and the French power stations, with a net book value totalling \$172,396,000 as at December 31, 2006 (\$161,288,000 as at December 31, 2005), together with the related working capital, have been pledged as collateral.

## Note 8. Long-term debt (cont'd)

*Minimum future payments*

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

2007	41,835
2008	12,258
2009	12,721
2010	63,097
2011	11,240

## Note 9.

**Renewable energy tax credit monetization program**

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 flow 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.

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 balance of the credit amount will be paid by the investor as the credits are earned. If the Corporation cannot produce enough to absorb 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 option would cost about US\$5,000,000.

Due to the implementation of this program, the nature of the amounts recorded from December 1, 2006 has been modified. Although the payments are equivalent to a proportion of the value of the renewable energy tax credit, the amounts recorded cannot be posted against the taxes the Corporation must pay. The Corporation decided that it would not modify the presentation of the items and that it would continue to indicate them separately given their relative materiality.

## Note 10.

**Financial instruments***Credit risk*

The Corporation has only a few clients, 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 slightly 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 NEEPOOL 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.

## Note 10. Financial instruments (cont'd)

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 wood-chip 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 better credit. In such a case, the Corporation would re-value the assets based on the lower of the book value or fair market value.

*Interest rate risk*

The Corporation is carrying long-term debts bearing interest at variable rates. As at December 31, 2006, approximately 88% 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. As discussed in note 8, the Corporation has used interest rate swaps to reduce its risk by reducing its exposure to interest rate fluctuations to 35% of total debt. As at December 31, 2006, the notional balance of these swaps was \$135,741,000 (€88,275,000) and their favourable fair value was \$2,427,000 (€1,579,000). Some swaps were in a situation of overcompensation for the item covered, however the effect was negligible.

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.

*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, most of which involve the physical delivery of electricity (see note 18 A and D).

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, 2006, the Corporation had entered into four electricity swaps for total deliveries of 227,064 MWh over periods of 7 to 27 months. All financial electricity swaps as at December 31, 2006 were designated as hedges associated with future electricity deliveries and their favourable fair value amounted to \$2,844,000. These contracts qualify for hedge accounting.

*Fair value*

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

	2006	2005
Carrying value	234,328	202,634
Fair value	233,423	201,704

## Note 11. Capital stock

	2006	2005
30,049,586 Class A shares (29,989,398 in 2005)	111,281	111,008
Stock purchase options	1,170	678
	<b>112,451</b>	<b>111,686</b>

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

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

	NOTE	2006		2005	
		NUMBER OF SHARES (IN THOUSANDS)	AMOUNTS	NUMBER OF SHARES (IN THOUSANDS)	AMOUNTS
Balance—beginning of year		29,989	111,686	29,987	111,366
Options exercised		61	273	2	12
Stock purchase options	D	-	492	-	308
Balance—end of year		<b>30,050</b>	<b>112,451</b>	29,989	111,686

B) The Corporation has a normal course issuer bid program, approved by the Toronto Stock Exchange, to redeem up to 1,500,000 Class A shares, representing approximately 5% of the Class A shares issued and outstanding. This redemption program will remain in force until June 13, 2007. No redemption was made to date.

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

	2006		2005	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding—beginning of year	946,115	5.23	603,035	4.55
Granted	297,664	9.60	345,815	6.41
Exercised	(60,188)	4.55	(2,735)	4.45
Cancelled	(7,485)	5.60	-	-
Outstanding—end of year	<b>1,176,106</b>	<b>6.37</b>	946,115	5.23
Options exercisable—end of year	<b>565,576</b>	<b>4.84</b>	437,763	4.67



## Note 11. Capital stock (cont'd)

The following options were outstanding as at December 31, 2006:

GRANTED IN	OUTSTANDING		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	105,500	3.57	105,500	3.57	2013
2004	339,254	4.16	282,436	4.10	2014
2005	341,397	6.41	85,349	6.41	2015
2006	297,664	9.60	-	-	2016
	1,176,106	6.37	565,576	4.84	

- d) The Corporation applies the fair value method of accounting for options granted to officers and employees. An amount of \$492,000 was recorded as *Administration costs* of the Corporation to account for the options granted during the year ended December 31, 2006 (\$308,000 in 2005). 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:

	2006	2005
Risk-free interest rate	4.40%	3.85%
Expected annual dividend	0.00%	0.00%
Expected life of options	7 years	5 years
Expected volatility	44%	45%
Weighted average fair value per option	\$5.66	\$2.85

- e) Diluted per-share amounts have been calculated as follows:

	2006	2005
Weighted average number of shares outstanding	30,033,885	29,986,994
Dilutive effect of stock purchase options	404,605	253,608
Weighted and diluted average number of shares outstanding	30,438,490	30,240,602
Net earnings	15,020	21,088
Net earnings per share (basic) (\$)	0.50	0.70
Net earnings per share (diluted) (\$)	0.49	0.70

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:

	2006	2005
Number of anti-dilutive options	335,685	38,021

## Note 12. Cumulative translation adjustments

	2006	2005
Balance—beginning of year	(30,663)	(23,661)
Currency translation effect on self-sustaining foreign operations	2,658	(7,371)
Share of cumulative translation adjustments of the Fund	(75)	(1,086)
Tax on share of cumulative translation adjustments of the Fund	23	1,455
Balance—end of year	(28,057)	(30,663)

### Note 13. Financial expenses

	NOTE	2006	2005
Interest on long-term debt, net of the impact of interest rate swaps	A	12,886	5,181
Interest income		(466)	(411)
Amortization of deferred financing costs		475	477
Other interest and banking fees		53	1,962
		12,948	7,209
Interest capitalized to power stations under development		(420)	(2,788)
		12,528	4,421

A) Interest expense on the direct financing lease contracts was \$1,027,000 in 2006 (\$1,218,000 in 2005).

### Note 14. Income taxes

A) The provision for income taxes is as follows:

	2006	2005
Income tax recovery		
Current	(674)	(2 646)
Future	(5,100)	86
	(5,774)	(2 560)
Earnings before income taxes	9,414	18 626
Renewable energy tax credits included in pre-tax earnings	(9,594)	(11 039)
	(180)	7 587
Combined basic Canadian and Québec income tax rate (%)	32.02	31.02
Income tax expense (recovery) at statutory rate	(58)	2,353
Increase (decrease) in income taxes arising from the following:		
Change in statutory income tax rates	(2,254)	-
Non-taxable items	(1,527)	(812)
Difference in foreign operations' statutory income tax rates	(435)	371
Reassessment of current and future income tax assets and liabilities	(1,698)	(4,350)
Other	198	(122)
	(5,774)	(2,560)

B) Future income taxes include the following items:

	2006	2005
Tax benefit arising from losses carried forward	50,981	19,504
Deferred costs	(3,898)	(103)
Provisions	249	1,977
Investment	(21,710)	(24,191)
Property, plant and equipment	(48,141)	(17,179)
Deferred revenues	6,491	-
Other	713	(55)
Future income taxes	(15,315)	(20,047)
Future income tax assets	6,249	7,979
Future income tax liabilities	(21,564)	(28,026)
	(15,315)	(20,047)

## Note 14. Income taxes (cont'd)

c) The Corporation and its subsidiaries, notably its French subsidiaries, have accumulated losses for income tax purposes amounting to approximately \$153,343,000, which may be carried forward to reduce taxable income in future years. With the exception of capital losses totalling \$1,554,000, 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:

2013	2014	2024	2026	UNLIMITED	TOTAL
1,308	5,088	9,178	4,867	132,902	153,343

d) Renewable energy tax credits are allocated under the U.S. federal tax regime. With respect to Boralex's power stations, this program will be 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 9.

## Note 15. Changes in non-cash working capital balances

	2006	2005
Decrease (increase) in		
Accounts receivable	45	(10,963)
Inventories	124	(1,911)
Prepays	(678)	(458)
Increase (decrease) in		
Accounts payable and accrued liabilities	(9,165)	10,003
Income taxes	(1,039)	(3,578)
	(10,713)	(6,907)

## Note 16. Segmented information

The Corporation's power stations are grouped under four distinct segments: hydroelectric power, wood-residue thermal power, natural gas thermal power and wind 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:

	2006	2005
Net earnings	15,020	21,088
Non-controlling interests	168	98
Income tax recovery	(5,774)	(2,560)
Financial expenses	12,528	4,421
Amortization	20,880	11,037
EBITDA	42,822	34,084

## Note 16. Segmented information (cont'd)

Revenues are attributed to countries based on the location of customers. In 2006, the Corporation had four customers accounting for more than 10% of its revenue. Their respective share of total revenue was: 30%, 24%, 15% and 10%. In 2005, the Corporation had five customers accounting for more than 10% of its revenue. Their respective share of total revenue was: 29%, 17%, 14%, 13% and 11%.

## Information by segment

	2006	2005	2006	2005
	POWER GENERATION (MWH)		REVENUE	
	(UNAUDITED)	(UNAUDITED)		
Hydroelectric power stations	138,518	109,761	10,939	9,962
Wood-residue thermal power stations	1,010,206	1,012,540	71,126	78,474
Natural gas thermal power stations	38,365	37,328	14,763	13,944
Wind power sites	189,964	45,695	23,174	6,316
	1,377,053	1,205,324	120,002	108,696
		EBITDA	PURCHASE OF PROPERTY, PLANT AND EQUIPMENT	
Hydroelectric power stations	7,481	6,453	600	366
Wood-residue thermal power stations	5,586	16,904	8,671	22,910
Natural gas thermal power stations	5,405	2,700	24	261
Wind power sites	19,766	4,148	9,688	111,923
Corporate and eliminations	4,584	3,879	218	293
	42,822	34,084	19,201	135,753
As at December 31	2006	2005	2006	2005
	TOTAL ASSETS		PROPERTY, PLANT AND EQUIPMENT	
Hydroelectric power stations	34,284	26,787	10,691	10,579
Wood-residue thermal power stations	147,099	128,287	97,919	96,230
Natural gas thermal power stations	21,944	18,258	12,201	11,831
Wind power sites	196,987	175,940	156,899	140,816
Corporate and eliminations	78,069	80,243	4,779	3,004
	478,383	429,515	282,489	262,460

## Geographic information

	2006	2005	2006	2005
	POWER GENERATION (MWH)		REVENUE	
	(UNAUDITED)	(UNAUDITED)		
United States	1,133,208	1,109,640	81,044	87,627
France	228,329	83,023	37,938	20,260
Canada	15,516	12,661	1,020	809
	1,377,053	1,205,324	120,002	108,696
		EBITDA	PURCHASE OF PROPERTY, PLANT AND EQUIPMENT	
United States	12,743	22,418	9,251	22,607
France	25,171	6,934	9,767	112,394
Canada	4,908	4,732	183	752
	42,822	34,084	19,201	135,753

## Note 16. Segmented information (cont'd)

As at December 31

	2006	2005	2006	2005
	TOTAL ASSETS		PROPERTY, PLANT AND EQUIPMENT	
United States	177,751	147,481	105,649	101,838
France	218,931	196,114	169,100	152,919
Canada	81,701	85,920	7,740	7,703
	478,383	429,515	282,489	262,460

## Note 17.

## Related-party transactions

In addition to the transactions with the Fund (see note 4), the Corporation entered into the following transactions with related parties:

	2006	2005
Company (and its subsidiaries) having significant influence on the Corporation		
Revenue from energy sales	7,859	7,926
Other revenue	-	39
Operating expenses	1,129	776
Purchase of property, plant and equipment	64	3
Entity controlled by a director and officer of the Corporation		
Other revenue	468	507
Interest income	24	8

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, 2006 and 2005 included the following balances with related parties:

	2006	2005
Company (and its subsidiaries) having significant influence on the Corporation		
Accounts receivable	2,134	1,625
Accounts payable and accrued liabilities	1,856	427
Entity controlled by a director and officer of the Corporation		
Accounts receivable	478	87

## Note 18.

## Commitments and contingencies

In addition to the commitments related to the Fund (note 4 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. In 2006, the Corporation has renewed its power sales agreements 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 2020
France	Steam	2022

Note 18. 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 2006, the rent was \$361,000 (US\$318,300) and will be indexed at 3% per year until 2013. From 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 one of its U.S. power stations that has qualified as a renewable energy producer in Connecticut. As at December 31, 2006, the balance of these commitments totalled about \$8,600,000, for periods between January 2007 and December 2007.
- d) In accordance with its risk management policy, the Corporation set the price of a portion of the power generated by one of its wood-residue power stations under future contracts that require the physical delivery of electricity. As at December 31, 2006, these contracts totalled 116,400 MWh (229,200 MWh in 2005). These contracts had an unfavourable fair value of US\$903,000 (US\$8,520,000 in 2005).
- e) 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 above the contract minimums.
- f) With regard to the *Municipal Taxation Act*, since 1999 the Corporation has been appealing a series of assessment notices relating to a tax regime other than that to which the Corporation is subject. At the very beginning of 2007, the Corporation came to an agreement with tax authorities. The effects of the subsequent settlement were recorded as at December 31, 2006.
- g) 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 Corporation cannot assess the amount of its contingent liabilities under such indemnification guarantees since these amounts depend on the occurrence of possible future events whose nature and likelihood cannot be established for the time being. However, the maximum amount associated with these guarantees may not exceed the proceeds from the sales.
- h) The Corporation has signed a turnkey maintenance contract with GE Wind Energy for its wind power project at Massif Central. The initial contract period is five years, with anticipated annual expenditures of about €600,000.

## General Information

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Fax: (514) 284-9895

### Website

[www.borex.com](http://www.borex.com)

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

### Transfer agent and registrar

Computershare Investor Services Inc.  
1500 University Street, Suite 700  
Montreal, Quebec H3A 3S8  
Canada  
Telephone:  
1-800-564-6253 / (514) 982-7888  
Fax: 1-888-453-0330 / (514) 982-7635  
[service@computershare.com](mailto:service@computershare.com)

### Shareholder information

The annual Meeting of Shareholders will be held at 11:00 a.m., Wednesday, May 16, 2007 at the:

Centre Mont-Royal  
Room Mont-Royal I  
4<sup>th</sup> floor  
2200, Mansfield Street  
Montreal, Quebec H3A 3R8  
Canada  
Telephone:  
(514) 844-2000 / 1-888-844-2200

### Additional information

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